ONE YEAR LATER: STILL SITTING ON OUR ASSETS

(112–72)

HEARING

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND
EMERGENCY MANAGEMENT

OF THE

COMMITTEE ON
TRANSPORTATION AND
INFRASTRUCTURE
HOUSE OF REPRESENTATIVES

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Washington, DC 20515

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February 6, 2012

BRIEFING MEMORANDUM

TO: Members of the Subcommittee on Economic Development, Public Buildings and Emergency Management
FROM: Subcommittee on Economic Development, Public Buildings and Emergency Management Staff
SUBJECT: Oversight Hearing on "One Year Later: Still Sitting on Our Assets"

PURPOSE

The Subcommittee on Economic Development, Public Buildings and Emergency Management will meet on Thursday, February 9, 2012, at 10:00 a.m., at the Old Post Office Building Annex located at 1100 Pennsylvania Avenue, NW, Washington D.C. to receive testimony from the General Services Administration (GSA). The hearing will focus on the costs to the taxpayer of underperforming or vacant assets, models for their redevelopment or reuse, and how spending can be reduced through private redevelopment of underperforming assets.

BACKGROUND

One year ago, the Subcommittee held a hearing at the Old Post Office. At that time, the Annex of the OPO sat vacant and one year later it remains vacant. Since that hearing, H.R. 1734 was introduced to create a civilian BRAC-like process to create savings by shrinking the federal footprint and selling or redeveloping under-used buildings.

General Services Administration

The Subcommittee has jurisdiction over all of GSA's real property activity through the Property Act of 1949, the Public Buildings Act of 1959, and the Cooperative Use Act of 1976. These three Acts are now codified as title 40 of the United States Code.

The Public Buildings Service (PBS) is responsible for the construction, repair, maintenance, alteration, and operation of United States courthouses and public buildings of the Federal Government. Additionally, PBS leases privately owned space for Federal use. GSA owns or leases 9,600 assets and maintains an inventory of more than 362 million square feet of workspace. GSA acts as the "landlord" for the federal government, obtaining and managing space to meet the space needs of other federal agencies. GSA, however, is just one of nine[1] federal agencies that, in total, own or manage 93% of federal real property.

Management Issues

Given the vast real estate holdings of the federal government, poor asset management and missed market opportunities cost taxpayers significant sums of money. For this reason, in 2003, the Government Accountability Office placed real property management on its list of "high risk" government activities where it remains today. GAO conducts biennial reviews on high-risk areas within the Federal government to bring focus to specific areas needing added attention and oversight. Areas are identified as "high" risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or areas that need broad-based transformation to address major economy, efficiency, or effectiveness challenges.

The key reasons the GAO identified federal real property as high risk are:

- excess and underutilized real property,
- deteriorating and aging facilities,
- unreliable property data, and
- the over reliance on costly leasing.[2]

Unfortunately, despite executive orders and memoranda issued during two administrations and acts of Congress intended to improve the management of federal real property, these problems persist.[3] The high risk activities of Federal real property are significant. Considerable amounts of vacant or underperforming assets can translate into significant costs associated with their operation, maintenance, and security. For example, in fiscal year 2009, the federal government spent $1.7 billion in annual operating costs for under-utilized buildings and $134 million, annually, for excess buildings.[4]

[1] The other major land-holding departments and agencies include the Department of Defense, Veterans Affairs, Department of Energy, Department of Homeland Security, Department of the Interior, Department of State, National Aeronautics and Space Administration, and the U.S. Postal Service.
[2] *See* High Risk Series: Federal Real Property, U.S. General Accountability Office, GAO-03-122, January 2003.
[3] *See*, for example, Executive Order 13327, Federal Real Property Asset Management, signed by President George W. Bush, February 4, 2004; Presidential Memorandum, Disposing of Unneeded Federal Real Estate, signed by President Barack Obama, June 10, 2010; Public Buildings Cooperative Use Act of 1976; Public Law 108-447, Division H, Title IV, Section 412, December 8, 2004 (providing enhanced flexibility to GSA in real property management).
[4] FY2009 Federal Real Property Report, Federal Real Property Council, September 2010, p. 5.

Old Post Office Building

The historic Old Post Office building is an example of a major underperforming GSA property, located at a prime location in the nation's capital, just blocks from the U.S. Capitol and the White House. Built from 1892 to 1899 to house the U.S. Post Office Department Headquarters and the city's post office, the Old Post Office (OPO) Building is the second-tallest structure in the nation's capital, after the Washington Monument.[5] It sits partially occupied and loses millions of taxpayer dollars a year.

According to GSA, it leases approximately 200,000 square feet of office space in the building to a variety of federal agencies, which include the National Endowment for the Arts, GSA, the National Endowment for Humanities, and the Advisory Council on Historic Preservation. The main OPO building sees approximately 200,000 visitors a year for the clock tower and retail establishments. The large atrium or core of the building and common areas consume 44% of the building's space, making it inefficient as an office building today.

GSA collects about $5.5 million in rent each year. The building is more than 375,000 square feet.[6] In addition, the clock tower at top the building is operated by the National Park Service. In order to make better use of the building, in 1982, GSA attempted to redevelop the lower levels of the building for retail use and awarded a master lease for 55 years to a developer for retail. In 1989, the lease was amended to allow for the construction of a new retail facility in the OPO courtyard (Annex) of 53,000 square feet and was built with both public ($1.8 million) and private funds ($5.5 million).

The OPO Annex opened but was never fully occupied and, in 1993, the private developer defaulted on its loan. GSA later bought out the remaining part of the master lease in 1998. However, the Annex now remains vacant and deteriorating. GSA spends about $12 million to operate and maintain the facility, which results in an annual operating loss of $6.5 million. Despite specific direction and explicit authority enacted into law in 2008, GSA has not yet begun the process of redeveloping the site.[7] In 2005, GSA determined that the 30-year net present value of simply leasing out the building for private development would yield an average of $21 million.[8] The Request for Proposals (RFP) was issued in March 2011; however, as of this memo GSA has yet to select a developer.

The OPO is an example of an underperforming building that if redeveloped to better use could provide a positive return on the investment. The GSA has had previous experience working with the private sector to turn historic buildings to profitable use. A recent example, the highly regarded renovation of the historic Tariff Building in

[5] Building Overview, Old Post Office, Washington, D.C., U.S. General Services Administration.
[6] Inventory of Owned and Leased Properties, U.S. General Services Administration.
[7] Old Post Office Building Redevelopment Act of 2008, Public Law 110-359.
[8] Executive Summary of Responses to the RFI for the Old Post Office, U.S. General Services Administration, Final Draft, July 25, 2005, p. 3.

Washington, D.C., not far from the Old Post Office, has been converted from a money losing asset of the Federal government to the Monaco Hotel, which is generating revenue for the Federal government. The redevelopment of the Tariff Building is an illustration of what can be achieved when the Federal government works with the private sector to produce a site that brings a return to the government, provides a safe and necessary facility for the city, and preserves a unique historic treasure.

WITNESSES

Mr. Robert Peck
Commissioner, Public Buildings Service
U.S. General Services Administration

ONE YEAR LATER: STILL SITTING ON OUR ASSETS

THURSDAY, FEBRUARY 9, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC DEVELOPMENT, PUBLIC BUILDINGS, AND EMERGENCY MANAGEMENT,
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:35 p.m. at the Old Post Office Building, 1100 Pennsylvania Avenue, NW., Hon. Jeff Denham (Chairman of the subcommittee) presiding.

Mr. DENHAM. The subcommittee will come to order. Let me welcome the public buildings commissioner, Bob Peck.

Thank you for joining us here this afternoon. I want to congratulate you, first of all, on the start of a new development here. That is one of the things that has changed since a year ago today. We certainly want to cover a number of other topics. The other thing that has changed is it is a lot warmer this year.

So I also want to thank Chairman Mica for being here today, and thank him for his leadership in addressing the Government's gross mismanagement of Federal real estate. I am very pleased and excited that finally we have some good news when it concerns the Old Post Office. It is a major step in turning around this property, and a real success for the chairman's efforts.

I look forward to learning more about the selection of the Trump Organization today. I am also interested in learning what other progress and setbacks GSA has made in the last year to reduce the amount of vacant and underutilized property nationwide.

One year ago we met in this building to highlight the waste of taxpayer money on vacant and underutilized Federal buildings. We chose the Old Post Office because it is a symbol of a larger national problem, and how the system for solving it is broken. If the taxpayer can lose $6 million a year on prime Pennsylvania Avenue real estate halfway between the White House and the Capitol, then similar properties must be sitting all across the country.

In this case, Congress held multiple hearings and passed two laws requiring the redevelopment. Yet years and years passed before we could get to the point of announcing a redevelopment team. The bottom line is the system is broken, and we need a new process to sell or redevelop these properties. It was in our hearing last year that I first proposed using an independent commission to identify properties for sale and redevelopment, and forcing Congress to give them an up or down vote.

Since that hearing I drafted and introduced the Civilian Property Realignment Act. And just this week, the House passed H.R. 1734, the Civilian Property Realignment Act, with bipartisan support. That legislation will literally shrink the Federal footprint by selling or redeveloping high-value properties that are underused and burning a hole in the taxpayer's pocket.

In addition, since our hearing last year, the administration directed Federal agencies to save $3 billion by selling or consolidating Federal property. We want to hear about the progress that GSA has made, how many buildings have been sold, what were the sale proceeds, and how long will it take to work through the backlog of excess properties at that rate.

Over the years, the committee highlighted several large underutilized properties. And, as far as we can tell, GSA has done little to sell, redevelop, or refill them with Federal employees. For example, the Dyer Federal Courthouse continues to sit completely empty in Miami. In the New York City area a huge Federal building has been 50 percent underutilized for almost a decade. In Washington, DC, the Cotton Annex sits empty on property CBO valued at $150 million.

And then there are those examples where GSA is spending millions of dollars in taxpayer—will end up with even more vacant or underutilized property. One of those examples that I have continued to highlight, in Los Angeles GSA intends to spend $360 million and completely abandon a 700,000 square-foot courthouse and a significant portion of a Federal building.

In Norfolk, Virginia, we recently learned GSA was sued for condemning private land to build a courthouse that we don't need and don't have the money to construct. From our perspective, it appears GSA is selling or redeveloping a few properties, making little progress on most properties, and spending millions to add to our excess property inventory.

On balance, I am not sure if our excess inventory problem is growing or shrinking, something we certainly want to hear about today. And on top of all this, GSA has failed to respond to committee requests for basic financial information about GSA's budget. While I am pleased GSA has taken an important step to redevelop the Old Post Office, I am very concerned about what GSA is doing with the rest of its inventory.

Again, I thank Mr. Peck for being here today. And at this time, Chairman Mica, I would like to recognize the full committee chairman, who has been a real leader in addressing this problem of wasteful Federal properties.

Mr. MICA. Well, thank you, Mr. Denham, Chairman Denham, and thank you for your leadership on this important subcommittee, and following through. So often in Congress, people hold a hearing and not much gets done. Sometimes things warm up as a result of the rhetoric, and the heat—sometimes things heat up. And we are here on a warmer day than we were 1 year and 1 day ago.

And things are looking brighter. And I thank Mr. Peck for his cooperation. GSA—there is nothing like a hearing to motivate action. I think we called a hearing, and then suddenly after a year there was a concurrent announcement that we would—they would enter into negotiations with one of those who had expressed interest. That took a year. It was a bipartisan effort. Ms. Norton isn't here, her staffer is here. But we want to say that this isn't just a Republican idea or a Democrat idea. This is an idea for the American taxpayers.

Now, Mr. Denham, maybe if this one hearing has got this—or two hearings have gotten this project going, I am told there are 14,000 properties on the excess property list, and thousands more that are half-empty. So if we do five hearings a day for the next year, we might get rid of some of the inventory.

But actually, I have to congratulate—this young committee chairman took on this issue, didn't stop. And this past week passed through the House of Representatives the Civilian Property Reform Act, H.R. 1734 this week that will make a difference. And sometimes it is difficult for bureaucracies to move. Sometimes Mr. Peck and GSA is caught in the middle. But we are going to stop any of the delays that we can and try a way to expedite disposal, better utilization, whatever we can do to get the taxpayer a better deal.

This project here—and we want to hear more about it, we don't know all the details—we have got to make certain it is a successful project. There was an attempt before that wasn't successful. I would like to know why it took a year. I have been in real estate and real estate development. We need to shorten that. It shouldn't take more than 6 months to put out an RFP and get people to move forward in these projects, or less. In the private sector it can be done. And now we understand the negotiating time is about a year. We want this expedited, but we want to make certain that the public interest is protected in this. This isn't some program to benefit anyone in the private sector. This is protecting public assets.

This project alone can stop the bleeding of between $6 million and $10 million of taxpayer money, hard-earned taxpayer money, going out the door to support an empty building and a half-empty adjacent building. This project alone has the potential for putting 1,000 people to work. It is two blocks—what is it, three blocks—to the White House, sitting here vacant and half-vacant for over a decade. And we have got to find a way to do better and make certain that we are on the receiving end. This project can actually make money for the taxpayers, put revenue in our depleted coffers.

So the other thing, too, is we have got lots of places where we can hold these hearings. Mr. Denham, I suggest the Cotton Annex, 89,000 square feet, probably no heat there. Maybe we could do it in a few weeks, when it warms up a little bit more. But here is another building. And then we hear reports—here is a building half-empty, 900,000 square feet, Social Security Administration office in Jamaica, New York.

So we have got examples not only here in the capital, but throughout the United States, thousands of opportunities to stop sitting on our assets and turn those assets into something that can benefit the American taxpayer who is on the hook for all of this inactivity or lack of attention or lack of initiative in moving forward to make these properties and these assets valuable again for return. And when you are approaching a $17 trillion deficit, every one of these opportunities that are missed is sad for the people of the United States and their future.

So, with that, we do have a number of questions, and we want to express our, again, gratitude for GSA moving forward here. If there are any impediments that we can help them with that would make this go faster, and then ensure the success of this project.

One announcement for the ladies waiting in the back. Donald is not coming today, so you just got me. Sorry. But hopefully he will be successful when he and his development company take this project and turn a very rough, rough stone into a diamond. Thank you.

Mr. DENHAM. Thank you, Chairman Mica. Today we have just got one panel: Mr. Robert Peck, Commissioner of Public Buildings Service, U.S. General Services Administration. First of all, I would like to welcome our witness and thank him for being here today and making this space available for the hearing. I ask unanimous consent that our witness's full statement be included in the record.

[No response.]

Mr. DENHAM. Without objection, so ordered. Since your written testimony has been made part of the record, the subcommittee would request that you limit your oral testimony to 5 minutes.

Mr. Peck, you may proceed. And before you proceed, let me just say for the record you and I have had many different conversations, and I appreciate the open dialogue that we continue to have to make sure that this property, as well as others, continue to move forward.

TESTIMONY OF HON. ROBERT A. PECK, COMMISSIONER, PUBLIC BUILDINGS SERVICE, U.S. GENERAL SERVICES ADMINISTRATION

Mr. PECK. Thank you, Mr. Chairman, and also Chairman Mica. Good afternoon. I am—I was going to say I am not totally happy to be back here, because I still prefer to be in warmer space, but it is better than last year. I want to thank you for the opportunity to join you here today at the Old Post Office to discuss the progress we have made this year in pursuing the redevelopment of this historic property, and also the progress we have made on surplus property around the country.

I hope I will have an opportunity during the course of my testimony and answers to questions this afternoon to correct some of the mischaracterizations which I am afraid I have heard from the committee today and other times about the nature of the surplus property and our efforts. But as you noted, mostly we are working together very well.

I want to congratulate you, Chairman Denham and Chairman Mica, on the passage in the House of the CPRA legislation. As you know, the Administration expressed some concerns about the legislation, but we are eager to continue working together and see if we can make that legislation a reality.

As you know, we announced on Tuesday the selection of the Trump Organization as the preferred developer to redevelop this facility, the Old Post Office Building in Washington. And we are excited to reach this important milestone in the project.

I would like to take a moment to remember a dear colleague, Pat Daniels, who worked many years as a dedicated contractor for GSA on this redevelopment project, and also on the Southeast Federal

Center. Pat took ill suddenly last year and passed away 3 weeks ago. And it saddens me that she is unable to see this great result of her dedicated efforts.

This project is only one example of GSA's ability to effectively utilize our owned and leased building portfolio. GSA is a leader in Government asset management of buildings. We are building on our successes with aggressive efforts to deliver new and innovative workplace strategies that will improve utilization even more.

One thing I would like to just note now to—also to correct some misimpressions I think that the public may have, is that while the annex we are sitting in is vacant—and, as you can see on the chart I brought, has 53,000 rentable square feet—the Old Post Office Building itself, the historic building, which you see there, and all of that building which you can see—the annex is located way in the back, in a courtyard—the building is actually fully occupied by Federal tenants, Federal office tenants, and by retail.

This building, interestingly, in the 1980s was a public-private partnership. We select—GSA at the time selected a private developer to do the retail. For all kinds of reasons it was successful for a while, and then not. And it—but to make a very long story short, it is time to take another shot at this building, and we think we have a much better way forward.

Over the last decade GSA has successfully implemented a restructuring initiative to right-size our portfolio. Since 2005, GSA has returned disposal proceeds totaling almost $244 million. Last year alone we sold 14 public building service properties, returning $17 million to our building fund. Additionally, GSA continues to make progress on our aggressive goal of saving $450 million by fiscal year 2012, the end of this fiscal year, in real estate costs, which was put in place by the President in his June 2010 memo, "Ordering Federal Agencies to Dispose of Unneeded Federal Real Estate."

To date, GSA has saved more than $300 million toward our $450 million target. We are on target to make the September 30th deadline. And we understand other agencies are meeting their targets as well, so that we will make or exceed the President's $3 billion target.

GSA has also led Federal efforts to utilize Government-owned space more effectively. Modernizing our own headquarters is an example of these efforts. Once the first phase of our modernization project at 1800 F Street, NW., is completed, GSA will move in other offices currently housed in leased space, which will significantly increase utilization and save taxpayers nearly $7 million annually in leased costs.

During this renovation, we developed a laboratory to experiment with new technologies and solutions for alternative workspaces, such as hoteling. An entire PBS division of 87 people, for example, now occupies a space that previously sat only 43. This space comprises various types of workspaces designed to increase collaboration, improve productivity, and save energy. GSA is also assisting our customers and optimizing their space through client portfolio planning. We help them identify utilization opportunities to reduce costs and the Government's footprint.

Unfortunately, Mr. Chairman, our efforts have been hampered by our inability to get our lease prospectuses authorized. In our fiscal year 2011 program alone, there are 20 lease prospectuses still under consideration. All of these lease prospectuses have been pending for at least a year, and, in many cases, much longer. GSA has proactively gone back and worked with Federal agencies to reduce lease requirements.

Since the initial submission of our prospectuses, we have reduced these agencies' total leasing needs by over 600,000 rentable square feet, with possible savings of over $26 million annually. GSA worked with the Department of Justice, for example, to reduce their space request by almost 83,000 rentable square feet, saving over $4 million a year. Most of these leases represent replacements for existing space that, if not acted upon, can fall into holdover, costing taxpayers significantly more, and negatively affecting private-sector landlords. I am hopeful we can work with this committee to move these prospectuses forward as soon as possible to realize these savings.

In addition to improved leasing practices, we have successfully used our out-leasing authorities to improve the use of our properties, including redeveloping this building. The Old Post Office serves as an important landmark here. In 1982, Federal funding for renovation was combined, as I noted, with a private-sector out-lease that provided for a retail pavilion. That lease was amended in 1989 to provide for construction of this annex, which, as you know—which, as we all know, never succeeded.

We did issue a request for proposals in March of 2011 to pursue a redevelopment of the property. The RFP allowed the private sector to leverage its expertise in determining what the highest and best use would be for the Old Post Office, with a goal of providing a positive return for the Government, while maintaining the building's historic integrity. The proposals were rated both on qualitative and quantitative factors, which included the developer's experience, past performance, site plan and concept, financial capacity, and financial offer.

GSA completed this review, and on Tuesday announced that the Trump Organization had been selected as the preferred developer. This is a significant step in putting this notable asset to its highest and best use, preserving its historic integrity, and contributing to the vitality of Pennsylvania Avenue, the Federal Triangle, and the District of Columbia.

GSA and the Trump Organization will spend no longer than the next year—that is the outside limit—negotiating a detailed agreement for the building's redevelopment. If negotiations proceed as anticipated, redevelopment will commence in 2014, with occupancy in 2016. The redevelopment of the Old Post Office is a perfect example of how the Federal Government can, in cooperation with the private sector, turn a less-than-optimal office building into a facility that will more efficiently serve its community and produce a positive financial return for the Federal Government.

Again, I appreciate the cooperation we have had over the last year, and the opportunity to come here today, and look forward to answering your questions.

Mr. DENHAM. Thank you for your testimony. We will have a few rounds of questioning today. But first of all, I want to initially focus on the Old Post Office. You said in your testimony that the Post Office itself is fully utilized. How do you define fully utilized?

Mr. PECK. Well, the historic building itself. We have only 10,000 square feet of vacant rentable space. So, as a percent of occupancy and percent of vacant space, on rentable space, the building is fully utilized by our standards and most private sector standards. So, the annex building separately—which we don't spend much money maintaining because, as you can tell, we are not heating it—is vacant.

But the—so what I would like to explain is that while the building is occupied, there are hundreds of Federal employees who work in the building. There are retail tenants who work in here every day, there are tourists who come in every day. The building loses money because it is incredibly inefficient. The heating, ventilating, and air conditioning systems are very expensive to maintain. And the rents that we collect from the tenants and from the retail tenants just don't cover the costs.

Mr. DENHAM. You said hundreds of Federal employees currently occupy——

Mr. PECK. Yes, sir.

Mr. DENHAM. What is your space utilization rate?

Mr. PECK. The—I will have to get that for you. But it is—I suspect it is around our normal space utilization, which is, in most cases, between 200 and 250 square feet a person. But I will have to get you that for the record.

One thing I would note about this building—and the reason that, I believe, that most of our proposals were not for office space, is that the building was built as an office building in a different era. And today it doesn't lay out very efficiently as office space. The amount of space that you have for circulation and open area is much higher than we would like to see in an office building these days.

Mr. DENHAM. In an office building like this, you define whether or not it is a good business investment or a return to the taxpayer based on Federal employees being in that same building.

So what I am trying to get at is we allow a lot of Federal employees in a building like this that could be collocated somewhere else. So it is not really a savings or a net profit for Government.

Mr. PECK. We absolutely agree. I am not trying to say—in fact, what we are all agreeing on is that this doesn't work very well for Federal office occupancy. And as I said in my testimony, we are working with every Federal agency we can to increase the utilization of Federal space.

One of the things—I will just say again, if you will allow me, one of the things that has changed in the world, and it is changing in the private world, too, is that with the use of technology, and the different ways in which people use their space, and the recognition that people can work from home, they can work on the road, we have all recognized that we just don't need as much office space as people used to use. And we are trying to shed what we don't need as fast as we can.

Mr. DENHAM. Now that you have got a private investor—Trump, in this case—what are the next steps in the process for redevelopment?

Mr. PECK. We will, fairly quickly, sit down with the Trump Organization and try to work out the details of an agreement between us and figure out who does what, what our rights are to certain returns, what their rights are. There are historic preservation issues we need to work through, so they can know what aspects of the building they need to maintain, and what they can't. And while some of that was in the request for proposals, these things get much more detailed.

You know, we have a—one model to go by. We did redevelop the historic post office building at—on F Street, between 7th and 8th Street in the District, and that is now a hotel, also. So we have done these things before. There are a lot of details that need to be worked out.

Mr. DENHAM. Is that the Monaco?

Mr. PECK. It is the Hotel Monaco. Yes, sir.

And the other thing that we have to do is—and we are already doing this—is to find another place to put the National Endowment for the Arts, the National Endowment for the Humanities, and the Advisory Council on Historic Preservation, which are the tenants in the building. And we have already been out looking at locations with them. So we are trying to get ahead of the curve on that.

Mr. DENHAM. And what is the timeline for relocating both the Federal employees that currently occupy this building, as well as the private tenants?

Mr. PECK. We will—we have tentatively said to the—with all of the offerors, that we would be able to vacate the building by about this time in 2014.

Mr. DENHAM. And again, I want to make sure that the highest return for the taxpayers—what can you tell us about the selection process, and how Trump was to benefit the taxpayer?

Mr. PECK. Thank you. I can tell you, now that we—we put out a request for proposals. It was open to anyone. We got 10 proposals—I am now allowed to say that, as well. Most of them were for hotel use. There were some that were for office use. All of them included some kind of mixed use arrangement.

We had a—we first had a—we have a selection panel of Government employees. We are required to have Government employees make the final selection, of course. But they were advised by outside economic advisors who took a look both at the qualitative and quantitative aspects of the proposal.

Our RFP said that we were going to look at financial return, on the one hand, and on technical qualifications, on the other. So we looked at the backgrounds, previous performance, of all of the people who responded. We took a look at their concepts for the building, and we came up with a tentative ranking.

We then—as we had said we might do in the RFP, we then decided that it made sense to have all of the people offering come in for face-to-face interviews. Those happened in December, and then our committee got together and put their heads together with the advisors and made the selection of the Trump Organization as the preferred developer. In other words, we are going to negotiate with them and see if we can reach a detailed agreement.

Mr. DENHAM. And on relocating the various tenants, what is the cost that GSA is planning on—cost associated with the entire relocation? Who is going to pay for that? And where will the tenants be relocated to, especially the Federal employees? Do they go to leased space or do they go to currently owned space?

Mr. PECK. We—to answer the last question first, we are not totally sure where they are going to go. Our preference is always to locate Federal agencies in Government-owned space, if we have it available. So we have been looking at some of the—at some spaces that could accommodate all of the tenants, although not necessarily in the same place.

We are also looking at some leased spaces. We have talked to them also about—and probably will allow them to make use of less space than they currently have. But we haven't settled on that yet. Cost is a factor. We obviously want to get them in the cheapest space possible that allows them to meet their mission.

And I am sorry, you had a—your first question was about the cost of relocating them?

Mr. DENHAM. The cost, and who is going to pay for it.

Mr. PECK. I will get you that, and who pays for it. The cost of relocation, some of it has to—some of the cost has to do with where they go. We have a rule of thumb cost for relocating people that is just the move costs. It depends on how much of their furniture we can re-use, how much more we have to use. And we have got some detailed estimates which I would rather provide.

On the question of who pays for it——

Mr. DENHAM. As long as we make sure that they are provided——

Mr. PECK. They——

Mr. DENHAM. We have had some issues with making sure information is provided back to committee staff in a timely manner, so——

Mr. PECK. I know. We have—you know, every time you ask me to provide something I have lots of review bodies that help me provide my answers for the record. We will try to get them as fast as we can.

Mr. DENHAM. Thank you.

Mr. PECK. The—who pays. Typically, when a Federal Government agency's lease and a building are—we have a kind of an informal lease inside the Government with agencies. When it is time for them to move, they have to move, mostly they have to pay. There are some instances in which GSA has to pick up the cost, and we are still working that out.

I believe that the arts and humanities endowments, we haven't—I am sorry, the budget hasn't come out yet. So I believe you will see in the budget some provision for relocating the agencies. But I am not quite sure how that has gone in the final days of the budget prep, which is coming up next week.

Mr. DENHAM. And final question. The last developer that GSA selected went bankrupt, and obviously this annex has sat empty ever since. How are we going to protect the taxpayer from the risk of this happening in the future?

Mr. PECK. Well, there are—that is something that we will have to—that we will have in our agreement. But typically—and I have worked on these agreements as an advisor in the private sector, but with public entities—typically there are either rights for the

Government to take the space, for the owner of the building—in this case the Government—to take the space back, if the owner goes bankrupt, subject—always, I have to say—to bankruptcy court proceedings, and give it to somebody else. Sometimes the person in bankruptcy themselves have some rights to get somebody in there as a partner. We will probably retain a lot of rights to review what happens if somebody is in financial trouble. But, as I said, in the end we are going to maintain the ownership of the building, so we will have a right to step in at some point.

Mr. DENHAM. Thank you. Chairman Mica.

Mr. MICA. Again, I thank you, Mr. Peck, for your cooperation and the progress we have made to date here.

Let me just talk about, first, the progress and the effort in getting here. It has taken some time. Again, I think in the private sector we could have put out a request for some proposals and had them in in a much shorter time. Is there anything in our process that needs to be changed legislatively or administratively, so that we could move this kind of project, the one we are talking about here, forward, based on your experience?

Mr. PECK. Mr. Chair, I don't think we need—in this particular process, because it is under section 111 of the National Historic Preservation Act, we actually have a decent amount of leeway to move.

I will say that, you know, this is true—and I found this to be true in State and local governments as well—because it is a Government process, the Government is more open, transparent, and we allow—we take a lot more time evaluating proposals than do private sector groups, because you are just a lot more open to people suggesting that either political influence—it is beyond—or something else intervenes. So we——

Mr. MICA. Was there any political influence in this one?

Mr. PECK. There was not.

Mr. MICA. Swear to tell the truth, nothing but the truth?

Mr. PECK. No, I do. And I want to say——

Mr. MICA. I never contacted you. I don't care who you put in here, just so it is a viable firm and we don't have to—I mean—and I heard from reports that you had substantial—well, the participants who expressed interest—and I think that is the case, I see—I guess they are GSA people, or just people that like to agree with me.

[Laughter.]

Mr. MICA. But there was good interest. But it seemed like it went on a long time. I mean look at the proposals, you look at the return, you sit down, you get some details. My God, it is a year later.

Mr. PECK. Well, OK. But let me answer the political influence thing first, because I am glad you asked the question, because I really——

Mr. MICA. And you know, if there is—anybody does mess around with this kind of stuff, maybe we should do—add an addendum to the insider trading or something. I know politics, for some reason, does take place in this. But I don't think any of it was from anybody with the committee, interference, and there shouldn't be in the process.

So—and if you don't want to talk about it here, and you have any suggestions that we can make certain that we tighten that up, so—we rely on you to sort through that maze. But it did take a long time.

Mr. PECK. I want to—first of all, I want to assure the public that, one, there were no political appointees who sat—I am one—who sat in on the selection. They weren't telling me what was going on very much, as it happened, other than telling me what the schedule was.

Two—and I want to compliment the Congress—I know that there were offerors who exercised every right, the right they have to talk to Members of Congress. And I know that no one in the Congress, to my knowledge——

Mr. MICA. Made any——

Mr. PECK [continuing]. Contacted us about any of that.

Mr. MICA. That is good.

Mr. PECK. Finally, I will just note that there were—happen to know now who the offers came from. Some of them are people who support Democrats, some are people who support Republicans. Obviously, we picked a developer who——

Mr. MICA. Better not——

Mr. PECK [continuing]. Has a political affiliation, and it isn't mine. And finally, I would say but in the process we got a request for proposals out about a month after the hearing last year.

Mr. MICA. Right.

Mr. PECK. This is a complicated deal. And the people who offered needed some time to go through the building, see what it looks like, see what condition it is in, and then we needed some time. I don't think, even in the private sector—you might have shaved a couple of months off, but probably not much.

Mr. MICA. OK. Well, again, this is a big project, not just the annex that we are in, but the post office. We want it successful. You had mentioned Hotel Monaco, and I have to cite and maybe put in the record an article from August 25, 2002, that says, "Watch your step. When West Coast entrepreneurs hooked up with Federal bureaucrats to convert a DC landmark into a luxury hotel, they had no idea what they were getting into." But this describes the nightmare, the bureaucratic nightmare, and the problems that were incurred there. Are you familiar with this?

Mr. PECK. I am. I read that article.

Mr. MICA. Maybe you could tell us how we will avoid some of that, and——

Mr. PECK. I have to say I happen to think that it is a great project, and I think that the hotel developer is a terrific hotel developer. I think——

Mr. MICA. The process was—they described it as a bureaucratic nightmare—dealing with the Federal Government to get that done.

Mr. PECK. I think they were—I will just say this. I think they were a little bit naive about the historic preservation process, although they had a lot of experience in historic preservation. We are pretty strict on that, and that is one of the things they complained about in the article.

On the other hand, I think that, in the end, they agreed that they got a pretty good product out of it, and they are making money. So I am—I suspect, if they were interviewed today, they would have a different view.

Mr. MICA. Well, and——

Mr. PECK. And we will be more streamlined. Can I say that——

Mr. MICA. There is a description in that of a very bureaucratic process. And, you know, no one is interested in giving away the store in rapid order. We want the public interest protected. But we also want the process expedited, so that we can have successes, whether it is this project or other projects.

Do you expect revenue to come in from this deal? And was that part of the basis to—it had to be part of the basis of the decision to select this particular company. So——

Mr. PECK. Yes, sir.

Mr. MICA [continuing]. I know it has cost us money to keep this, even though we have Federal occupancy and some other occupied area. But it has still been a net expense.

Mr. PECK. Yes, sir.

Mr. MICA. We are moving that into the positive column under the proposals, I would assume, and that was one of the bases and criteria by which the final winner was selected.

Mr. PECK. Yes, sir. We don't—as I said, we are going to——

Mr. MICA. We can't talk about the return, but it will not become a drag, a financial drag. It should be, actually——

Mr. PECK. No, sir. And I can tell you——

Mr. MICA [continuing]. Revenue-positive to the taxpayer.

Mr. PECK. Yes, sir. And the magnitude of the revenue proposed by the preferred selected developer had an influence on his selection.

Mr. MICA. OK. But we didn't want to speed you up or anything, but when we announced the hearing, you did make the announcement. You think if we did all those hearings it would help motivate and then—but we will be doing a few more. And that brings up the—I always look forward to seeing the inside of the Cotton Annex. And do you know how long that has been vacant?

Mr. PECK. I forget how long that has been vacant. But——

Mr. MICA. You forget?

Mr. PECK. But Mr.——

Mr. MICA. It has been vacant that long?

Mr. PECK. Mr. Chairman, you know, the Cotton Annex, though, is—I have to say there is a shared responsibility for the vacancy——

Mr. MICA. OK.

Mr. PECK [continuing]. On some Federal properties. And——

Mr. MICA. Well, that is what we have got to identify. And then you shouldn't be sitting there by yourself, taking all the heat in the cold. You should——

[Laughter.]

Mr. MICA. We need to expand the witness table. Who else might be responsible?

Mr. PECK. Well——

Mr. MICA. And I want you to give us suggestions for witnesses in—for the hearing that will be held soon in the Cotton Annex.

Mr. PECK. Well, there have been proposals that the Cotton Annex be used for certain non-profit cultural purposes. And some of those have been promoted by Members of Congress. So——

Mr. MICA. Can you get the FTC in there?

Mr. PECK. We have looked at that. It is not quite big enough, and it is an awkward site, because there is a freeway that runs right by it and under it. But there—you know, but for example, can I just say the old——

Mr. MICA. That is called transit-oriented development.

[Laughter.]

Mr. PECK. The Old Post Office, this building itself, the Old Post Office Building, GSA actually proposed redeveloping this building back in about 1999 or 2000. And then we were stopped when a rider appeared in appropriation legislation from the Senate side, telling us that any redevelopment would have to go through authorization and appropriations reviews. And informally we were told that we were not to do certain kinds of redevelopment.

Mr. MICA. Does that still prevail? That was in 1999?

Mr. PECK. No, sir. It is——

Mr. MICA. So that excuse has lapsed.

Mr. PECK. That was superseded by Ms. Norton's legislation, thank goodness. So we are—which does have a review, but which ordered us to redevelop the building.

Mr. MICA. Is there heat in that building?

Mr. PECK. No, I am sorry, we are talking about the Old Post Office Building.

Mr. MICA. Oh.

Mr. PECK. We are talking about the Old Post Office Building——

Mr. MICA. No, I was talking—I am past the Post Office on to the Cotton.

Mr. PECK. The Cotton Annex, we are looking again. There have been lots of proposals for that building, and lots of ideas about what to do with it. And I am hopeful—we are looking at it as part of—we have a number of surplus properties on that side of the Mall which we would like to move out, and are having active conversations with lots of people about how that might happen.

Mr. MICA. Mr. Denham, if you could, maybe we could schedule one a month, at least, clear up a—that only—let's see, we got another 10 months left. We could clear up some of the inventory. He said a dozen or more.

In the District?

Mr. PECK. I didn't say a dozen, I just said a number of properties——

Mr. MICA. OK.

Mr. PECK [continuing]. On the south side of the Mall that are potentially surplus properties.

Mr. MICA. Well, again, as the chair of the committee, I look forward to your scheduling at least a hearing a month. We will visit the properties together. Maybe we can put a plan together and take them off the, you know, static asset basis and put them into productive use. And maybe, God forbid, we should have a return, but we just want to stop the bleeding.

So, that is one little thing that maybe we could accomplish here. First, we want to make certain this project moves forward. Then secondly, look at other projects, both in the District. Then, there is 14,000, I guess, and then thousands outside, some that are partially vacant. We are going to be busy a long time. But we can pick some sites and maybe advise the committee staff to look south during the winter months here on our visits to some of those sites. And then we can move into the warmer climes as we hold the field hearings across the country this year.

So, we are just doing this one, but this is a followup. And then we will have a year-long series of hearings, both in the District and in the field, to highlight those. And if you could help staff comply with that, and Mr. Denham direct that, as the chair of the subcommittee, I would be grateful. He is—this guy is good. He is a—he is like a bulldog, I love it.

Now, we—let's turn to the 21 lease prospectuses that are pending. And some of the problem we have is that there are requirements, I understand, for more space but no increase in personnel. And some of that is being negotiated. Is there any way to speed that up, other than just continue the negotiations?

Mr. PECK. Well, I believe that we have—on the leases that are pending, on many of them, we have already negotiated reduced requirements with the agencies that are involved.

Mr. MICA. OK.

Mr. PECK. So that whether we renew the leases or move, there will be less square footage than we originally proposed in those prospectuses.

Mr. MICA. Can we get a list of maybe those for the record, and include them in the record, so we can see, you know, how we can help move that forward?

And in the budget, the President's budget, will we find attention to some of the problems we have had? Again, space versus the number of people? Because a lot of plans for expansion have, in the last year, suddenly run into some road blocks. I don't know why, but there is a different crowd at least in charge of one-third of the Government who put the brakes on some of this. Is there a reflection in, again, the budget you have been recommending to the White House? Can you give us a little preview of what we will see?

Mr. PECK. I can't. I am not allowed to divulge what is in the budget. But let me—I am happy to tell you that a——

Mr. MICA. We can look for——

Mr. PECK. I am happy to tell you that over the past year we have—the Administrator of General Services, Martha Johnson, and I have had any number of meetings with Federal agencies who have come to us, both because of the administration's focus on overhead costs in the Government and Congress' focus on it, who come to us asking how they can reduce the amount of real estate that they occupy.

We have conducted national portfolio reviews with three major Federal agencies, and we are about to go out for, I think, three or five others. That includes really large ones, like the Social Security Administration. And I think you will see reflected in the budget a reduction overall in Federal space occupancy.

Mr. MICA. Yes, they started in my district with one of the offices for Social Security in one of my smaller communities, which—what is interesting is we have no problem with that. The local community even offered a space for them to occupy. They came up with more cockamamie reasons why they couldn't do that. So, instead of having 60 to 100 people drive 60 miles to Jacksonville, and each day, and 1 or 2 Social Security employees to come to a existing State or community facility, we got an incredible runaround. Is there anything we can do to allow those kinds of activities to, you know, have some commonsense approach?

Mr. PECK. Well, Mr. Chairman, we have talked to Social Security and the Internal Revenue Service about where they locate their field offices, where they are best located with respect to where—the most important issue is where their clients are. But also, with——

Mr. MICA. But again, it just doesn't make any sense to me to have—and most of those are elderly, or people that are disabled or trying to get to the Social Security office and move one or two people, even if they commuted, as opposed to 300 or 400 trying to get to Jacksonville, some 50, 60 miles away. And——

Mr. PECK. Well——

Mr. MICA. Is there a prohibition, or something we can work on?

Mr. PECK. Well, I think——

Mr. MICA. Maybe we can try to do that as we downsize a cooperative State, Federal, local initiative. Do we have to have—rent space? Do we have to do things that don't make sense?

Mr. PECK. Well, Mr. Chairman, I think you are expressing some of the tensions that we have. On the one hand, if you are trying to consolidate space and reduce the number of Federal locations, you do—sometimes you have to balance that against inconveniencing the public, which may have to go farther.

On the other hand, I will give you an example. We have had conversations with the Agriculture Department about some of their field offices that were built in an era when you had to go visit the Agriculture Department——

Mr. MICA. Right.

Mr. PECK [continuing]. To get your agricultural crop support, or whatever it was. And these days, farmers sit on top of a combine that is controlled by GPS going up to a satellite, and they have got a laptop sitting there, and they don't need to go to an office at all to communicate with Agriculture.

Mr. MICA. Right.

Mr. PECK. So we think we can close some of those things. Some of that will start to happen with Social Security, at least as my generation starts to get in and is computer literate.

Mr. MICA. If you would, maybe we could take this on as a little project with the staff, and see what we could do to look for some more cost-effective space utilization by agencies. And if there is a prohibition for some of the agencies to occupy on a temporary basis, or with some sort of an agreement to house that activity, it could save everybody money, energy costs, it would be much more efficient.

Of course we haven't gotten into distance communications that would—distance communications. A lot of the folks don't have access to laptops, or may not be as capable of communicating through modern technology. But again, we have got to keep up with current times. So that is another project that we can take up.

Let's go to a couple of projects. I will start with the DHS St. Elizabeths. Maybe you can give the committee a quick update. I think we have got 4 million square feet out there, and 1.2 million is supposed to be occupied by the Coast Guard. What is the status of that project? And that leaves a substantial remainder. Could you give us a thumbnail sketch?

Mr. PECK. The Coast Guard building is being completed, will be occupied next year by the Coast Guard. We have——

Mr. MICA. Is that on schedule and within budget, or what?

Mr. PECK. Yes, sir. It is both.

Mr. MICA. OK.

Mr. PECK. And—however, because we have not gotten the follow-on—so the building itself is within budget and on schedule. We did not get the follow-on funding for the next phase of the project. And because of that, we have had to redo the way their operations center and utility hookups happen. Those will be done on time, also.

But unfortunately, I have to report that, because of that delay, when we do finally move ahead with the next phase of the project we will have spent probably an additional $30 million to $40 million for temporary fixes, which we would not have had to do, had we just continued the project as it was scheduled.

We are stretching out the schedule. We anticipate that, hopefully, when the—when budget circumstances allow us to go forward, we will complete the project. But for the moment, we have renovated a couple of the historic buildings for some support space. We will finish the Coast Guard project. And it is hard for me to predict right now when we will move on to the rest of the project. It is still our intention and that of the Department of Homeland Security to occupy that as its headquarters.

One other thing I will just note is we have talked to them also about the possibility of locating even more people on the campus than they had originally projected, and they were originally projecting about 14,000 people. We think we will be able to reduce their space requirements elsewhere in the metropolitan Washington area, again, by taking advantage of the new kinds of space utilization standards that we are applying.

Mr. MICA. Well, with the SPP provisions that the President will soon be signing into law, we may need maybe half the bureaucrats we have in TSA to run their huge screening operation. So that might be something else we could save substantial money on. Hopefully we can look at that together and reconfigure or re-estimate some of the use of that land and move forward on a schedule that makes sense.

What about the FBI? Have you talked to the FBI? I keep hearing different things about what their plans are, the utilization of that building, and moving forward.

Mr. PECK. Yes, sir. I think—we, in response to requests from this committee—correct? At least the Senate—all right, the Senate side asked us to produce a report on the FBI building and the potential for relocating it. We send a report that suggested that we could reduce the amount of square footage that the FBI occupies in this area significantly if we could move off of the—out of the FBI headquarters on Pennsylvania Avenue, relocate someplace else, and probably sell that site to private interests who could, as with this project, put it to higher and better use.

Mr. MICA. How many square feet are there?

Mr. PECK. The FBI headquarters building is—I want to say 2 million square—how many square feet in the building? That would be 700,000, 800,000 square feet. I can give you these numbers.

Mr. MICA. So——

Mr. PECK. They occupy about 3.2 million square feet, including that building in the Washington area. We believe that, with newer space standards, they could—we could end up putting them in about 2.2 million square feet, save a million square feet, if we can come up with a creative way to move out of there and finance a new project.

Mr. MICA. Well, that brings me to one of my last subjects, which is the status of the FTC relocation. And also I know under consideration, or at least an offer may have been made or considered with some of the space that we are obligated to with the SEC on the Constitution Center space. And those opportunities do vanish as they try to, you know, fill that space. Is there any progress, either at that location or other locations?

One of my goals, whether—you know, I am not here to say "you're fired." In fact, we are here today to say you are still hired, and—I am not Donald, but one of my goals is to relocate the FTC, consolidate that space—you have sent us a prospectus for 427,000 square feet. There is over 300,000 square feet in the existing Apex Building, where the headquarters is located that is—dates back to the mid-1930s that could use substantial renovation. In addition, on—behind Union Station—is it New Jersey—have 212,000, 215,000 square feet of leased space. And asked again—and I think there is another location on top of that—and asked for a total of 427,000 square feet in your prospectus to us.

We, in turn, passed a resolution recommending the consolidation and relocation, so we could put as much of the FTC together as possible in one location. The—and have the National Gallery of Art, which is collocated across the street—and I know you have seen the plans they have for utilization of that space—and would undertake the full renovation cost at no cost to the taxpayers, which could be anywhere from $130 million to $200 million in value for renovation, plus the consolidation our staff estimates would save somewhere between $200 million and $250 million, a substantial amount of savings.

So, I am looking forward to completion of that. I think that the FTC has finally come to a realization that that is going to happen, and it is going to happen either this year, or, I guarantee, next year. So any progress to date you want to report as of today?

Mr. PECK. Mr. Chairman, the FTC lease that—lease prospectus that is pending, as you noted, was for 427,000 square feet.

Mr. MICA. No, it has been reduced.

Mr. PECK. And they have been able to reduce their space requirements by, I believe, about 80,000 square feet or 100,000 square feet. It is enough space that we are working—you noted the space that the SEC had potentially leased in Constitution—the Constitution Center building at 7th and D, SW. There is enough space there to accommodate the lease prospectus which we had sent out for the FTC, now that they have reduced their space.

With respect to the FTC headquarters building itself—and you and I have walked that together—we do not believe that at the current time it needs an extensive renovation. It will at some point, but not yet. I did also—because I know of your interest in this—I did have a conversation with the director of the National Gallery of Art to see if the gallery would be willing to pay for the value of the building.

Mr. MICA. Yes.

Mr. PECK. I know that they are prepared to pay for renovation. I don't—we don't believe that we are authorized to transfer the building to them without compensation.

Mr. MICA. Do you think that if we can get—and the value is about $70 million, I have been told, because of the condition. And that is the deal-breaker in that, if I can come up with $70 million, that you will give me that building?

Mr. PECK. I would have to——

Mr. MICA. Tell me. Come on. This is the whole truth and nothing but the truth.

Mr. PECK. This is a——

Mr. MICA. $70 million. How about the Minority? Ms. Norton said she wanted $70 million, or whatever it is. We are going to get the building. It is kind of crazy to have the private—well, private money come in and also buy what will be public asset. It stays with the Government. It is not—the National Gallery doesn't get it, it still stays with the taxpayer.

Mr. PECK. But, Mr. Chairman, on——

Mr. MICA. But is that what we need, $70 million more?

Mr. PECK. Mr. Chairman, on this building, Mr. Trump is proposing——

Mr. MICA. We will go out and get the $70 million. I got $80 million for the Visitor Center, so this is a discount deal.

Mr. PECK. Mr. Chairman, on this building the Trump Organization is proposing to put $200 million into the building, but they are also going to have to pay us for the value of the building. So when a—when agencies transfer properties within the Government——

Mr. MICA. Yes, OK.

Mr. PECK [continuing]. They are required to pay fair market value——

Mr. MICA. But I've got to know what—to do the deal, I've got to know what it is going to take——

Mr. PECK. OK. I will——

Mr. MICA [continuing]. To finance it. Give me a price——

Mr. PECK. I will give you a——

Mr. MICA [continuing]. And we will take that to people. Last night I sat in the Ford's Theatre and all those 1 percenters came and gave money to do the Ford's Theatre education center and other buildings. The Mellons and others across the country—the Visitor Center, most people don't know this, but the evening of September 11th—I'm sorry, September 10th, the night before September 11th, I hosted the last fundraiser to raise private capital for the Visitor Center, and we raised millions for the Visitor Center. We did a coin. There is $80 million worth of private money in that

Visitor Center that no one knows or cares about. But if it takes $70 million, I want to know how much it is going to take to get this done. And then we will work with them.

The National Gallery is also leasing, I know, at least 60,000 square feet, and has another 100,000 square feet. I have never seen a better plan for utilization of a building than what they presented to us. And we walked through there. But we are going to do that, one way or the other. There are lots of vehicles, too. It is not on the FAA bill that the President is going to sign this week. But mark my word, we will get that done, and it is going to be one way or the other.

So, I need to know what the price tag is, or what we have to do to make it happen. Because I know it will save money, and I know it is in the best interests of the country. So I look forward for you submitting that request. And maybe the Minority could ask Ms. Norton what her price is. She had told me $70 million, or had an amendment at one of the committees. We are going to get it done.

But I look forward to working with you, Mr. Peck, and I apologize that you have to put up with me. Just sometimes I am difficult, unreasonable. But we can get some things done. And I thank you personally for—it took a little bit longer—maybe 2 months longer than—as you said. But we are on our way. If you see any impediment, please notify me or the committee.

And on these others, we can take them one at a time in groups. We will do hearings, we will do meetings, whatever it takes. And our staff—if there aren't enough people here to help you on our—up on the Hill, I will get one or two more. I returned $2 million to the taxpayers for operation from my committee this past month, and I will spend a couple of bucks so that we can save hundreds of millions, maybe billions for the taxpayer.

So with that, Mr. Chairman, have I exceeded my 5 minutes?

[Laughter.]

Mr. MICA. And all the GSA staff, please be very careful about Googling alerts; I am trying to fox the chairman. I don't know if you read the CQ one on the TSA hearing, where they Googled the—instructed the TSA administrator on "let Mica ask one question and then take all the time so that he couldn't have another opportunity." It doesn't work that way on this committee. And they tried it on another committee. But I outfoxed them. I took 4 minutes and 45 seconds and then just asked one pointed question the other day.

But the problem was they sent—the TSA staff Googled, by mistake, their directive to the administrator to CQ. So I thought that was kind of funny. But it doesn't work with the old man, so——

Mr. PECK. Well, I haven't filibustered today.

Mr. MICA. No, no. You have been great. You have answered every question. What you haven't answered, we will insist on getting a response.

Mr. PECK. Yes, Mr. Chairman. We will be happy to respond with the fair market value of the building.

And I also wanted to say that we would be—we work well with your staff and with Chairman Denham. We are happy to brief you on the leases, on our surplus property efforts, as well.

Mr. MICA. OK. Excuse me, head cold. It is from doing hearings in cold buildings.

[Laughter.]

Mr. MICA. But the staff just handed me notes like you get handed notes.

Mr. PECK. Right.

Mr. MICA. A 2007 appraisal of $70 million.

Mr. PECK. Right.

Mr. MICA. Before——

Mr. PECK. So it may be more by now.

Mr. MICA. So before prices go up, I want to—but let me yield back the balance of my time, and excuse myself, Mr. Chairman, and thank you again for a good hearing. Thank you, Mr. Peck.

Mr. PECK. Thank you.

Mr. DENHAM. Thank you, Mr. Chairman. I do want to real quickly address the prospectuses. You know, I believe that agencies have to live with less space. I mean that is certainly a goal that has been talked about by GSA and by the President. And when we start receiving the prospectuses that actually show that we are utilizing less space in those prospectuses, we will continue to push them out. Now, I have asked you in our personal conversations if you have critical ones that are mission critical, we will certainly work with you on those.

But I just want to give one example. The revised FTC lease request includes 75,000 square feet of additional space. And the committee negotiated that down. But we are going out and asking for more space, even though we are not hiring more employees. The agency hasn't grown, but yet we are increasing space.

Mr. PECK. Which prospectus was that? Which prospectus was that? I am sorry.

Mr. DENHAM. The revised FTC.

Mr. PECK. 75,000 square feet more than we originally asked for? I don't believe that is the case. I will look into that.

Mr. DENHAM. You can get back to me on that. But just using that as an example, our goal in this committee is to reduce and live within our means on this. And we certainly want to work with you on these prospectuses, but we want to certainly show that we are using less space for employees. And when we have not hired new employees, we want to make sure that we are leasing less space there, as well.

I just want to go back to a couple of other questions on the Old Post Office, and then I want to talk to you about some of the new—or actually old—issues that we may be having new hearings on.

I mean this is a perfect example of something that sat over a decade, well before I came into Congress, and certainly discussing it with the ranking member. Took two pieces of congressional legislation to actually push this project forward, and a hearing a year ago and now a year later, another hearing. We want to make sure that, again, we are working with you. And we would like to know what type of impediments, not only with this project, but other projects, as we are looking to do the same type of redevelopment, what type of impediments that you are having to deal with.

Mr. PECK. Mr. Chairman, no one is more frustrated on this than I am since, when I had this job the first time, I proposed redeveloping the building and came back 8½ years later to find out that nothing had happened. So I was pretty frustrated, myself. And, as I said, there is a shared responsibility for that. There are reasons why the executive branch didn't move, and there are reasons in the Congress. Ms. Norton accepted why this didn't move, because she was sure trying to push it.

Among the impediments on surplus property—and we have discussed this before—are the facts: one, sometimes executive branch agencies believe they are going to have a need for a property and some of that is a wish, some of it is a—I guess a view that maybe some time in the future I might need it. We call that kind of landbanking. We have an example in GSA which I am happy to say we have gotten over the West Heating Plant in Georgetown here, which sat idle for a number of years because we thought we might need it as a backup.

And, as I think I described to you before, we finally asked ourselves—or at least some of us asked the question, well, if you haven't needed it for a backup through some terrorist incidents, physical, you know, weather catastrophes, we probably don't need it, and we have moved that out. So we are—we have got that on a schedule to get—to put that out in the market.

So sometimes it is Federal agencies that are sitting on the properties. Sometimes, as you know, the valuable properties that we have—and not all of those 14,000 assets are really valuable, nor even good enough that we can give them away. But the ones that are, sometimes Members of Congress, either responding to community pressure or their own views of what should be done with the properties, manage to get a hold on the property. And that is why I think that both of us have agreed that a Civilian Property Realignment Act could get us over that, just like it did on the Defense BRACs. And I think that is a problem.

The final thing I will note—and it is counterintuitive and very hard to describe to people that impedes us both in reducing the amount of square footage that we occupy for our real needs, and sometimes moving properties out of our inventory, is the fact that we need some upfront investment dollars, either private or public, somehow, to make the properties available.

And here is what I mean by that. In our—the success I described in our headquarters building, in being able to move between two and three times as many people back into our headquarters, is only going to happen because we invested more than $100 million in the building to renovate it. It required taking out a lot of old walls, investing in different kinds of furniture. And we will be able to get a lot more people. In the long run, that is a huge savings for the Government. Unfortunately, it requires some upfront investment.

What I described for the FBI headquarters will require some combination, I believe, of public and private investment to make it happen. And, as you know, we are limited in the kinds of financing that we can do. We can either lease a building from the private sector, or we can build a building and own it. And that is—right now we are not getting the money to build. And so we will—in some cases, all we can do is revert to leasing, which, in the long run, is not necessarily the best deal for the Government, either.

So, there are some impediments which we have discussed. I know you and I—and we should talk about them in the future, as well.

Mr. DENHAM. And we want to continue to have those discussions.

And my final question, just on your overall goal, I mean the administration has come out with their number of $3 billion that is their goal of savings, and yet GSA's portion of that is $450 million. That seems low, especially when you have things like the Cotton Annex that—that one property is $150 million. Why is GSA's portion of that $3 billion so low?

Mr. PECK. Well, because it was a—the—because that was what we had to anticipate from the June 2010 memo to September of 2012 that we could move through our process and actually realize either a savings or a sale on. And we didn't see—for example, on the Cotton Annex, we didn't see a clear path to getting that out of the inventory in time.

I will note that we have said—and I think you have said, too—on the Property Realignment Act, we think that that number could be $15 billion over the next several years, because we will streamline the process, and get more properties in the pipeline.

The Cotton Annex, I have to say, is one of those properties that would benefit a lot from somebody being able, with some finality, to say, "Here is what we are going to do with the building." We know we don't need it in the Federal inventory right now. We just need to get everybody agreed on what we are going to do with it.

Mr. DENHAM. And then lastly, before I discuss some specific properties, we have had some financial questions for you that we have been asking for since December. You know, what have—the PBS administrative costs for the past 5 years, and how much money is left over from completed renovation and construction projects each year.

Mr. PECK. I think——

Mr. DENHAM. Again, I would ask you, on the record, to make sure that we get that information promptly.

Mr. PECK. OK.

Mr. DENHAM. No reason why you wouldn't be able to provide that information to us, correct?

Mr. PECK. No, there isn't. And I have reviewed several drafts of the response, so I know it is around.

Mr. DENHAM. OK, fantastic. Well then, in—last piece of this, I will go through a little rapid fire here, a number of different pieces of property that I have had a great deal of interest in, you and I have talked about, certainly properties we are discussing having hearings at. But my specific question on each of these different properties is if we had the Civilian Property Realignment Act in place today—I know that the administration is pushing this, we are pushing it, while we may have some—I think you and I both agree we have some small differences that we both——

Mr. PECK. Right.

Mr. DENHAM [continuing]. Feel we can work out. I would just like to go through each of these properties. And if that were in place today, if we had that in place today, what would your opinion be on each of these properties?

The first one, Cotton Annex, which we have already talked about, 89,000 square feet that is empty, and by CBO's estimate, $150 million. Again, if CPRA were in place today?

Mr. PECK. I wouldn't want to promise $150 million. I think that is high. But it sure would help us move it out of the inventory. Absolutely.

Mr. DENHAM. But the goal would be to actually sell this property.

Mr. PECK. Yes, sir.

Mr. DENHAM. Or would we be looking at redeveloping?

Mr. PECK. I—that is hard for me to know. I don't know how historic it is considered. Anyway, I don't know if it is a sale or a public-private partnership or whatever. But somehow it surplused to—I believe it is going to be surplused to our needs.

Mr. DENHAM. But currently not part of the 14,000 properties that have already been declared surplus, or——

Mr. PECK. I think it is under—I think it is considered underutilized, isn't it? It is considered underutilized, so I think it is considered——

Mr. DENHAM. So it is on that list?

Mr. PECK. I think. Yes, sir.

Mr. DENHAM. Second property, the Social Security Administration office in Jamaica, New York, 900,000 square feet, currently only 1,500 Social Security employees are there. It was designed to hold 3,000 employees.

Mr. PECK. I know that, but—I know it had been——

Mr. DENHAM. This building could be sold, it could be redeveloped——

Mr. PECK. The Addabbo——

Mr. DENHAM [continuing]. We could combine agencies.

Mr. PECK. The Addabbo Building? That is one my——

Mr. DENHAM. I don't want to bait the witness too much on this one.

[Laughter.]

Mr. PECK. That is one, if I remember correctly, that is one where we either need money so that we can move other people in there and make better use of it, or we need to have money to move the remaining people out and do something else with the building. My guess is, given that location, it would be better off if we could move other Federal employees into it. But I think it is a money—it is an upfront investment issue, one way or the other.

Mr. DENHAM. We have approximately 1 million square feet of leased space in LA. What is the ballpark estimation on how much leased space we have in New York?

Mr. PECK. Oh, I would have to provide that. It is a lot.

Mr. DENHAM. Close?

Mr. PECK. A lot.

Mr. DENHAM. Similar-sized city?

Mr. PECK. My—yes, I was going to—I would guess much more than 1 million square feet in New York.

Mr. DENHAM. The Walter Hoffman United States Courthouse in Norfolk, Virginia, 210,000 square feet. The two parcels right here condemned west of the courthouse for a new annex. What would you do with this property?

Mr. PECK. I am not sure any more. We are having some conversations about that. Because there was a—the site was acquired to build an annex to the courthouse. And then we acquired the site in two parcels. You noted that the second one we condemned. We didn't actually get sued, we actually went to a condemnation suit, and we had to spend a lot of money on it.

We need to take a look at what is going to—what the future of that project is, and what we do with the parcel. I have to say, unfortunately—I mean I defend us, I defend the Government's actions, whether it is this administration or the previous one. On this one, we ended up buying a parcel. It cost more than we expected. I am not sure what to do with the site at this point, and I am not sure that the site, in the end, is one that we are going to use any time soon.

The other thing I want to say to you, by the way, is—to the committee—is that we did get an authorization to spend a certain amount of money on a site. There was a particular site in mind. We went to a different site, we spent more money, and I think we should have notified the committee. And I apologize for not having done that, and it won't happen again.

Mr. DENHAM. Thank you. Is this on the excess or underutilized property list?

Mr. PECK. No, because it is presumably on a project that is authorized. So I don't believe it counts as underutilized yet.

Mr. DENHAM. This is not on the underutilized list, either. Even though it is only——

Mr. PECK. That may——

Mr. DENHAM [continuing]. Percent occupied?

Mr. PECK. That may be at 50 percent. If it is at 50 percent occupied, it will show as—just like a building under renovation shows at underutilized, that should show as underutilized on the list. I don't know if it does.

Mr. DENHAM. The staff tells me it is not on the list.

Mr. PECK. It doesn't? Then there is a mistake in our profile——

Mr. DENHAM. My point will be, as I go through all of these, we have 14,000 properties, many of these high-value properties, which you and I have both agreed are not on this list, which is part of the reason we need a Civilian Property Realignment Act.

Mr. PECK. I should note that some of our joint focus in the last year has brought us to the understanding that that list, which was created for an accounting purpose some years ago doesn't work as a real estate management purpose. And we are revising the way we—our definitions on the list, and the way we put it together. Hopefully it will be a better product by this time next year.

Mr. DENHAM. My favorite topic when it comes to underutilized and excess properties, the courthouses in Miami, Florida, the David W. Dyer Federal Building, and United States Courthouse currently sits vacant.

Mr. PECK. It does.

Mr. DENHAM. Completely vacant. No phones on. We have tried to contact people there. It is empty. I am still looking——

Mr. PECK. I have——

Mr. DENHAM [continuing]. Forward to touring it myself, but an empty building.

Mr. PECK. I did. Well, you put it on the table. I did walk the building. It is vacant. It is—and here is—you always find something interesting in these deals. This also requires a little bit of money. The utilities, which go to one of—there are a number of courthouses in this courthouse complex, including the new one. But the utilities that go to some of the other occupied courthouses are actually located in the Dyer building. And so, we need to figure out a way to cut off the utilities and replicate them in another building.

There are different ways we could do that. We could either say to somebody, "Take it as is, where is, but you are going to have to pay for us to duplicate the utilities," or we have to pay for them ourselves. We are trying to figure out what to do. Believe me, I do not want that thing to sit there much more and——

Mr. DENHAM. Currently on the underutilized or excess property list?

Mr. PECK. That is on the—it is underutilized.

Mr. DENHAM. But it is not reported on the list?

Mr. PECK. Not—I don't think it has even been reported as excess, it is just underutilized.

Mr. DENHAM. And, in fact, not many of the courthouses have been, it is my understanding, on the list of underutilized or excess——

Mr. PECK. We got rid of—I mean we moved out in, I don't know, 8, 10 years ago, I think we moved out a number of really old, underutilized, small courthouses. This one is probably not on the excess list yet, because we use the utilities in the building. So the——

Mr. DENHAM. And you brought up the new courthouse, the Wilkie D. Ferguson, Jr. United States Federal Courthouse. Obviously a new courthouse, but not fully utilized, either.

Mr. PECK. It is—I walked through the building. I think it is fully occupied by the standard—if you take the standard that we get full rent on the building. I think the building was scoped out at a point at which we were designing buildings for a higher anticipated number of judgeships than we have—than have actually come about. And, as you know, we have scaled back——

Mr. DENHAM. Which is an issue of prosecution——

Mr. PECK. Which is an issue. And we and the courts have both scaled back what we do when we project the number of judgeships in the future.

Mr. DENHAM. New York City, the Daniel Patrick Moynihan United States Courthouse. I just toured that, as well as the Thurgood Marshall United States Courthouse. The Thurgood Marshall, as you know, is being renovated.

My concern here is one of the goals of the Civilian Property Realignment Act is actually space utilization. Courtroom sharing should be part of that. We have got courtroom sharing going on here. While it is still not full utilization according to the courtroom sharing model, we are looking at—we are renovating this. And they tell me the judges that are doing courtroom sharing are then moving over here. So, not only are we not meeting the goals of courtroom sharing in this building, but soon as this is done we are looking at moving a good percentage of those judges over.

Mr. PECK. Well, I think the distinction is that the judges who are sharing courtrooms while the Moynihan is being renovated are active judges. And under the courtroom-sharing guidelines of the judiciary, active district court judges don't share courtrooms. Senior judges and magistrate judges do.

So, we are moving them back. I mean when they move back into the Moynihan, as I said, they will meet the judiciary's courtroom-sharing guidelines.

Mr. DENHAM. And then finally—again, one of my favorite topics—the current Los Angeles Federal courthouse. You will hear me talking about this one as much as Chairman Mica talks about FTC. The Roybal Federal Building and the 312 Spring Street courthouse, once the renovation—or the new building is complete, we are going to spend $365 million building a brand-new courthouse, even though we have got the Roybal Building that has two floors that are not being used for courtrooms. And then we are going to vacate Spring Street.

First of all, I don't agree that we should be building the new courthouse. But if we are going to build it, should we not be selling the empty courthouse that is going to be left vacant?

Mr. PECK. Well, Mr. Chairman, when we build the new courthouse, we are either going to backfill the space that is vacated in the Spring Street courthouse, and which—and I just want to reiterate for the record that we are not going to reuse the—we are not going to use the Spring Street courthouse, beautiful building that it is, for courts any more because it doesn't meet our security standards, handicapped accessibility standards. And when we are done, we will either backfill the building with leased space, getting out of leased space in Los Angeles, or we will get rid of that building. One or the other.

Mr. DENHAM. Isn't part of the challenge that you have with these historic buildings that, once they are vacated to—if you are not going to use them for their original intent of actually using it as a courtroom, then to try to put new leased space in there—I completely agree. We have got 1 million square feet of leased space in Los Angeles. We ought to be utilizing our Federal footprint better. But if it is—if you are never going to be able to put office space in a courtroom, wouldn't you sell it for redevelopment or put it on that excess property list?

Mr. PECK. What we are going to have to do is see what it takes to—you know, how much of the building can we use as-is or for very little investment to move people out of the leased space in Los Angeles and into the building. And if we can't, then we will have to—that is when we will have to make the decision about doing something else with the building, and getting it out of the inventory, redeveloping it, selling it, whatever. But I mean we are not going to sit there with that building being vacant, or significant vacant. I will tell you that.

Mr. DENHAM. Thank you. Well, I appreciate once again not only your time here as a witness today, but more importantly our ongoing dialogue. This truly has been a partnership to move this bill forward out of the House and into the Senate. We look forward to full cooperation to not only getting it out of the Senate, but actually getting this signed into law and being able to work with you as it is implemented.

I mean I think it is going to be a great thing for the taxpayers across the United States, to move out of many of these different buildings and sell off some of the things that we don't need. We don't want to have a fire sale, as you and I have often talked about, but we certainly want to get the best bang for our buck for the taxpayers.

Mr. PECK. On that we certainly totally agree.

Mr. DENHAM. At this time I would ask unanimous consent that today's record of today's hearing remain open until such time as our witnesses have provided answers to any questions that may be submitted to them in writing, and unanimous consent that during such time as the record remains open, additional comments offered by individuals or groups may be included in the record of today's hearing. Seeing as there are no other Members up here with me, I don't think anybody will object.

[Laughter.]

Mr. DENHAM. But without objection, so ordered. Again, I would like to thank our witness today for being here and for testimony. And at this time this committee is adjourned.

[Whereupon, at 4:02 p.m., the subcommittee was adjourned.]

GSA

U.S. General Services Administration

Robert A. Peck
Commissioner
Public Buildings Service

Committee on Transportation and Infrastructure
Subcommittee on Economic Development, Public Buildings, and Emergency Management
"One Year Later: Effectively Utilizing Assets"
February 9, 2012

Good morning Chairman Denham, Ranking Member Norton, and members of this Subcommittee. My name is Robert Peck, and I am the Commissioner of the U.S. General Services Administration's (GSA) Public Buildings Service (PBS). Thank you for the opportunity to join you here again today at the Old Post Office to discuss the progress GSA has made in pursuing the redevelopment of this historic property.

This project is only one example of GSA's ability to effectively utilize our owned and leased building portfolio. GSA is a leader in government asset management of buildings and leases. We are building on our successes with aggressive efforts to deliver new and innovative workplace strategies that will improve utilization even more.

GSA: the Federal Government's Asset Manager –

Over the last decade, GSA has successfully implemented a major portfolio restructuring aimed at "right-sizing" its real estate portfolio. Since GSA gained the authority to retain sales proceeds in 2005, GSA's disposal actions have returned almost $244 million in receipts to PBS's Federal Buildings Fund (FBF).[1] In fiscal years 2010 and 2011 alone, we disposed of a total of 88 vacant or underutilized properties, totaling more than 4 million square feet, from the inventory. These disposals allowed GSA to avoid $73 million in anticipated repair needs and operation and maintenance costs.

GSA continues to make progress on the targets put in place following the June 2010, Presidential Memorandum, "Disposing of Unneeded Federal Real Estate." Federal agencies are on target to meet this $3 billion goal of cost savings by the end of FY 2012. To date, GSA has saved more than $300 million towards our goal of $450 million. As part of this effort, GSA's Office of Real Property Utilization and Disposal is assisting other agencies as well in meeting their aggressive targets through disposals. Moving forward, GSA will continue to aggressively identify and target underutilized assets for disposal.

One example of a recent disposition is the sale of a surplus federal building in Brooklyn, NY. GSA negotiated a sale of the property with the New York City Economic Development Corporation (NYEDC). NYEDC and its development partner purchased the property for $10 million with a goal of ensuring the site is redeveloped for the primary purpose of retaining and attracting industrial jobs. They are currently renovating the building for use as a state of the art industrial center. The once-vacant federal building will soon be a hub of activity that is projected to create 400 short term construction jobs and 1,300 permanent jobs. This project is expected to be a catalyst

[1] This figure includes revenue generated through use of all GSA disposal authorities.

for the industrial redevelopment of Sunset Park and complement the other industrial complexes in the area.

The disposition of property on the Fort Worth, TX Federal Center is another example of a disposition that returned proceeds to the FBF. The property consisted of approximately 75 acres of land, a number of small structures, and was improved with four large historic warehouses and one small office building, totaling over one million gross square feet. The property was sold through GSA's competitive online auction process in May 2011 for $6.425 million. The property was purchased by the City of Fort Worth and it intends to redevelop the property for use as a law enforcement and fire training facility.

GSA is in the process of disposing of the West Heating Plant, a large industrial building on 2 acres of land in Washington DC. Most recently, the plant was used as a backup heating source for several government buildings, but we determined recently it was no longer needed and started the disposal process. It was declared excess to GSA's needs in October 2011 and declared surplus to the government's needs in December 2011. Once this property conveys out of Federal ownership, it will eliminate millions of dollars in maintenance costs to the Federal government over the next decade. The divestiture of the plant will also ensure the property will be put to a productive use by the local community.

Utilizing Our Buildings –

GSA has led Federal efforts to utilize government-owned space effectively. At the end of FY11, GSA's national vacancy rate for all owned and leased assets was 3.4 percent, significantly less than the national private sector rate of 17.4 percent.

Since our restructuring initiative began, we have delivered a number of critical consolidation projects and completed more than 140 major modernization projects. These facilities provide more efficient workspace for tenant agencies.

For example, GSA is modernizing our own headquarters here in Washington DC at 1800 F Street NW. Phase I is fully funded through the Recovery Act, while Phase II will be funded in the outyears. Upon completion of Phase I of the project, GSA will be able to move in our Federal Acquisition Service, currently housed in leases in Northern Virginia, increasing the utilization of our building dramatically and saving taxpayers millions a year in lease costs. GSA anticipates that other savings could also accrue from aspects like reduced operating costs and eliminating shuttle service. The development of the DHS Headquarters campus at St. Elizabeths, also in Washington, D.C., is another critical consolidation and redevelopment project GSA is leading for the

Federal government. This project will be a 4.5 million square foot campus that will consolidate DHS workers from more than 20 locations in the D.C. metropolitan area into one modern and efficient campus thereby saving taxpayers hundreds of millions of dollars compared to the cost of leasing

While budget cuts delayed our efforts to fully realize the benefits of this consolidated campus, GSA will be able to complete the move-in of the first component of the DHS, the US Coast Guard, in FY13. This move will allow GSA to transition federal employees from one million square feet of leased space to federally owned space.

Pursuing Innovative Solutions to Optimize Space and Reduce Costs –

Additionally, GSA is leading the way to use space more effectively by breaking out of traditional office space configurations and providing tools and solutions that support a truly mobile workforce. During our headquarters building renovation, we have started using GSA's "swing space" as a laboratory for new technologies and solutions for alternative workplace arrangements, such as hoteling office space. During our renovation, we are prototyping a mobile workplace. In August of last year, a whole division of 87 individuals began occupying space previously occupied by only 43. Aside from three administrative assistants, no one has a personally assigned workstation. The space comprises different types of workspaces, designed to increase teamwork and collaboration, improve productivity, save energy, and improve the utilization of real estate.

We have also been studying best practices from other organizations throughout the United States and the world to learn how they effectively use space. Over the long-term, such practices hold great promise for enabling us to carry out government functions with much less office space per Federal employee.

GSA is partnering with Federal agencies to develop workspace solutions that create a flexible and mobile work environment. GSA is beginning to help agencies manage space utilization by offering guidance to reduce the amount of space required over time and increase Federal employee productivity. We are reinventing ourselves by changing from an organization that processes orders for space to creating agency partnerships that develop innovative options that enable agencies to use space more efficiently at a lower cost through the use of technology, sustainability, flexible office utilization, and a more mobile work environment.

In cooperation with the Office of Personnel Management, GSA is providing Federal managers with the tools necessary to build a mobile workforce. GSA is committed to leading the government and private industry in telework initiatives and is striving for 60 percent of all GSA employees to telework at least two days per pay period. GSA recently established a new telework policy that makes nearly every GSA employee eligible for telework, and includes additional space saving measures such as hoteling and desk sharing. These practices have the potential to create substantial savings both in real estate and operating costs. GSA is proactively working with its customers to provide guidance on their own telework policies, contributing to costs savings goals resulting from the Presidential Memorandum.

GSA has also started a high priority initiative known as the Client Portfolio Planning (CPP) program to assist our customers in improving asset utilization, in accordance with the President's June 2010 memorandum and Executive Order 13327, "Federal Real Property Asset Management." The overarching goal of the CPP program is to identify, analyze and report current, ongoing and potential portfolio optimization opportunities for our customers. These opportunities will reduce the federal government's economic and environmental footprints, while fully supporting agency missions. GSA established three plans in FY 2011 and in conjunction with tenant agencies, will begin implementation of the plans starting in FY 2012.

Reducing Agency's Leasing Needs –

GSA, in part through these initiatives, is reducing the Federal government's need for leased space and improving utilization.

Unfortunately, Mr. Chairman, these efforts have been hampered by this Committee's inaction on our lease prospectuses. From our FY11 program alone, there are 20 lease prospectuses still under consideration. All of these lease prospectuses have been pending for at minimum a full year and, in many cases, much longer. GSA has proactively gone back and worked with these Federal agencies to reduce lease requirements. Since the initial submission of the prospectuses, GSA has proactively gone back and worked with these Federal agencies to reduce lease requirements..

While we are proud of the potential savings if the committee will approve these actions, we are also anxious about the exposure of taxpayers to the consequences of inaction. Most of these leases represent replacements for already existing space that, if left idle, will fall into holdover, costing taxpayers far more, adding unnecessary administrative complexity and burden to business transactions, and negatively affecting private sector landlords with whom we must negotiate.

I am hopeful we can work with your Committee to move these prospectuses forward as soon as possible and realize these savings.

Legislative Authorities for Disposal, Reinvestment, and Redevelopment –

GSA has successfully used our out-leasing authorities to improve the use of our properties. Section 111 of the National Historic Preservation Act allows us to out-lease underutilized historic Federal buildings, in whole or in part, to non-Federal tenants. Section 412 in the FY 2005 Consolidated Appropriations Act,[2] allows GSA to retain net proceeds from dispositions of its real and related personal property through sale, lease, exchange, or otherwise, including leaseback arrangements.

Congress also has on occasion granted GSA special authority to adopt innovative, flexible arrangements for working with the private sector. For instance, GSA received authority to develop the Southeast Federal Center (SEFC) site in Washington, DC, through the *Southeast Federal Center Public-Private Development Act of 2000*[3]. By leveraging the private sector's creativity, experience, and resources, GSA achieved its goal of transforming the SEFC site into an asset where office workers, residents and visitors can live and work. GSA helped transform this waterfront property into a unique mixture of office and other commercial space, residential homes, and public amenities, while retaining proceeds of more than $43 million.

GSA used its authority under Section 111 to lease the historic Tariff Building in Washington, DC, for use as a first-class hotel and restaurant, eliminating operating and maintenance costs while ensuring long-term stewardship and public access to this important historic building. The building, which served as the first headquarters of the Post Office Department, sat vacant for 15 years following the departure of the Tariff Commission in 1987, while the surrounding Penn Quarter neighborhood was largely dormant. GSA worked with private sector developers to transform the 161-year old building and help revitalize the Penn Quarter neighborhood, leasing the property to a private hotel company that reopened the Tariff Building in 2002 as the Hotel Monaco. The lease allowed for restoration of ornamental spaces, replacement of all building systems, and modification to bring the building up to current code requirements. , While we are successfully managing our real estate and making use of our existing authorities, there are challenges inherent to the Federal government's ability to manage its real estate holdings, which is why the President proposed a bill last year that would usher in a new approach to Federal real estate. Building upon the successful model established by the Defense Base Realignment and Closure (BRAC) Commission, the President's proposal would create an independent Board of experts to identify opportunities to consolidate, reduce, and realign the Federal civilian real estate footprint as well as expedite the disposal of properties. This proposal would utilize bundled recommendations, a fast-track Congressional procedure, streamlined disposal and

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[2] P.L. 108-447 (2004).
[3] P.L. 106-407 (2000).

consolidation authorities, and a revolving fund replenished by proceeds to provide logistical and financial support to agencies in their disposal of high-value properties. It would serve as a comprehensive solution to key obstacles such as red tape and competing stakeholder interests that hinder the Federal Government's progress on improving real estate management decisions. GSA supports the Administration's goals and those of this Committee and other members of Congress to dispose of unneeded Federal real property and streamline the current disposal process through a civilian property realignment initiative, and meet our obligation to taxpayers to spend every dollar as effectively as possible.

The Old Post Office -

Finally, we get to the project that brings us here today, the redevelopment of the Old Post Office. The Old Post Office presents a unique history.

Federal funding for renovation was combined with a private sector out-lease in 1982 that provided for a ground floor and below-grade retail pavilion with $28 million in private funds for construction and leasehold improvements. The building re-opened in 1983 with a mix of Federal tenants and retail uses. This lease was amended in 1989 to provide for construction of the annex, which was constructed with $1.75 million in Federal funds and $5.5 million from the private sector. The pavilion was occupied with retailers, as well as Federal tenants in the office space. The annex, however, was never fully occupied and its retail use was never fully realized. The pavilion and the annex were commercial failures, resulting in a default on the leasehold mortgage in 1993. After Collin Equities, an affiliate of Wells Fargo, bought the leasehold interest for $8.5 million at foreclosure, GSA paid Collin Equities $7.1 million to acquire the leasehold interest in 2001.

With direction provided by Congress in the *Old Post Office Building Redevelopment Act of 2008*,[4] and authority provided in Section 111, GSA has been moving forward over the last year to choose a highly qualified developer to begin redeveloping the building and Annex.

We issued a Request for Proposals (RFP) in March of 2011. The RFP allowed the private sector to leverage its expertise in determining what the highest and best use would be for the Old Post Office, with the goal of providing a positive return for the Federal government while maintaining the historic integrity of the building. This RFP has received an immense amount of interest from respected, experienced, and world-class developers and teams.

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[4] H.R. 5001.

Given the long-term nature of this leasehold interest (a proposed 60 years), and the prominent and historic nature of the building, GSA gathered together a team of experts from both the private and public sector to evaluate proposals. These included architects, community advisors, academics, and financial experts. The proposals were rated both on qualitative and quantitative factors. These included the experience and past performance of the developer and the developer's key personnel, the developer's site plan and concept, the developer's financial capacity and capability, and the developer's financial offer and supporting financial information.

I am pleased to state that GSA has completed this review and selected the Trump Organization as the preferred developer to redevelop the Old Post Office. This is a significant step in putting this notable asset to its highest and best use, preserving its historic integrity, providing continued public access to the clock tower in accordance with existing agreements with the National Park Service, providing a positive financial return to the Federal government, and contributing to the vitality of Pennsylvania Avenue, the Federal Triangle, and the District of Columbia.

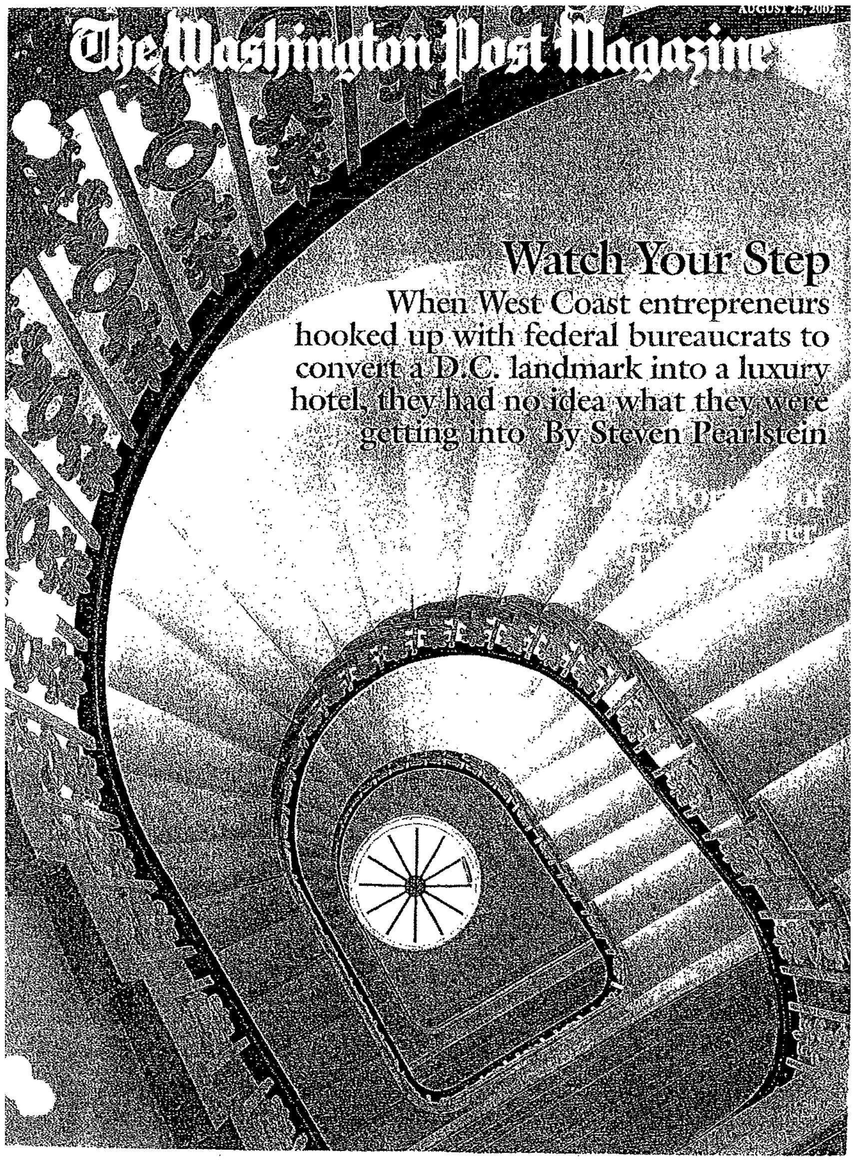
GSA and the Trump Organization will spend the next year negotiating a detailed agreement for the building's redevelopment. If negotiations proceed as anticipated, redevelopment will commence in 2014 with occupancy in 2016. As always, GSA has continued to fully utilize the available office space and as well as utilize our authority under the Public Buildings Cooperative Use Act to lease the atrium's pavilion to house a food court and retailers while this redevelopment moves forward.

Conclusion –

GSA is a leader in asset management, aggressively moving unneeded properties, effectively utilizing space, and pursuing new strategies that meet our obligation to taxpayers to house government's functions as efficiently and economically as possible. We are also taking advantage of our position in the Federal government to help drive better decision-making across partner agencies that will result in a sustainable and efficient government. We are hopeful this committee will join us in these efforts.

Redevelopment of the Old Post Office is an example of how the Federal government can, in cooperation with the private sector, turn a less-than-optimal office building into a facility that will more efficiently serve its community and produce a positive financial return for the Federal government.

I appreciate the opportunity to come here today and I welcome your questions.


AUGUST 25, 2002
The Washington Post Magazine
Watch Your Step
When West Coast entrepreneurs hooked up with federal bureaucrats to convert a D.C. landmark into a luxury hotel, they had no idea what they were getting into By Steven Pearlstein

No one said it would be easy opening a trendy hotel in a 160-year-old abandoned government office building. But this was ridiculous **By Steven Pearlstein**

PHOTOGRAPHS BY RON BLUNT

Heartburn Hotel

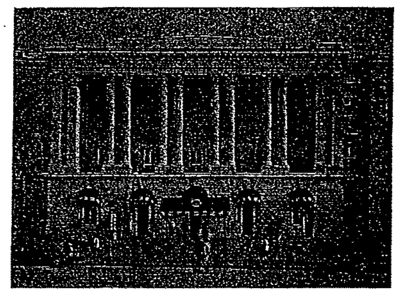
SHORTLY AFTER NOON on a hot, hazy summer day, Sharon Watson of Cabin John climbed the granite steps of one of the oldest and most distinguished government buildings in Washington—past the carpenter's whirring rotary saw, around the awning installers, taking care to avoid the new coat of shiny black paint being applied to the front door—and made her way to the front desk of what was about to be the city's hippest new hotel.

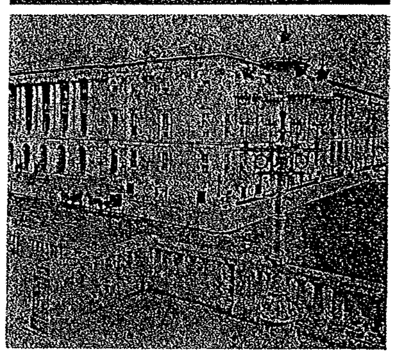
Watson might have been the Hotel Monaco's first guest. But only an hour before, the Monaco's unflappable general manager, Mike DeFrino, had pulled the plug on the opening, as he already had done twice before. It wasn't just that the goldfish bowls and the signature leopard-print bathrobes had not been delivered, or that the custom-made Oriental carpeting hadn't been rolled out in the block-long marble corridors, or that guys were still hanging from the roof washing 15 years' worth of grime off the windows. It was the workmen: There were just too many of them around to guarantee the safety of hotel guests.

Watson was a bit miffed that she hadn't been contacted ahead of time. But as a travel writer, she was there for professional reasons anyway, to get an early look at the hotel; she would just come back another time. DeFrino, however, had more to worry about than disappointing Watson and the seven other scheduled guests that night. The next day, about 100 employees and prospective interns of the Environmental Protection Agency were scheduled to show up from all around the country. And the most recent count by reservations manager Gene Ward showed there were, at most, only 66 rooms in shape to be cleaned and rented.

"Gene, come pray with me," joked DeFrino as he put down a mop and took a seat on one of the reproduction church pews arrayed along a corridor. DeFrino had just discovered that a nearby room had been inundated by an overflowing bathtub, ruining the freshly installed carpet. "Pass the word: We're not looking for any more bad news."

It was only fitting, perhaps, that the opening should go this





General manager Mike DeFrino, left, shepherded the Hotel Monaco, top, through a torturous, much-delayed opening. Above, the General Post Office in 1843.

At the front desk, from left, concierges Amanda Rubin and Dorrie Johnson with chief concierge Edward Munz. Below, a doorman awaits an arriving guest.

way—nothing about the project had come easy. In its heyday, this marble palazzo, headquarters of the new nation's postal service, had been considered one of the finest buildings in the country. But by the time the last government tenant had moved out in 1988, the structure had fallen into such disrepair that no other agency wanted anything to do with it. And in the 14 years since, the boarded-up landmark, covering the entire block bounded by E, F, Seventh and Eighth streets NW, had become an eyesore at the heart of Washington's decaying East End.

Now, after more than five years of bureaucratic maneuvering, neighborhood grumbling, protracted negotiations and one construction setback after another, the old General Post Office was about to be returned to its original grandeur, if not exactly its original purpose. Forty-four million dollars in public and private funds had been expended. A staff of 75 had been hired, trained, uniformed. Opening-day flowers had been delivered. And still the rooms weren't ready.

THE TALE PROPERLY BEGINS back in the '30s—the 1830s—when the White House and the Capitol were Washington's only two significant government buildings. Architect Robert Mills, a student of Thomas Jefferson, was charged by Congress with designing a new home for the postal department, and a site was chosen near that of the old Blodgett's Hotel, which had served as post office headquarters until it burned down in 1836. Mills's building, completed in 1842, featured Corinthian columns sheathed in Maryland marble, cantilevered spiral staircases, and offices with 20-foot vaulted ceilings.

In the 1850s, architect Thomas Walters, now better known for his work on the dome of the Capitol, extended Mills's U-shaped structure into a square surrounding an interior courtyard. "We doubt there is a building in the world more chaste and architecturally perfect than the General Post Office," gushed Harper's Monthly magazine in December 1859.

In time, the post office department would decamp to new, larger headquarters on Pennsylvania Avenue, and the old General Post Office would become home to a series of federal agencies. By the time the U.S. Tariff Commission left in 1988, Mills's and Walters's masterpiece had fallen victim to neglect and ham-handed modifications in which fluorescent lights, chipboard

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:en Pearlstein is a business and economics reporter for The Post. ..aff writers Dana Hedgpeth and Margaret Pressler assisted in the reporting. Pearlstein will be fielding questions and comments about this article at 1 p.m. Monday on www.washingtonpost.com/liveonline.

Bellman Daveren Anthony carries luggage to a car, and Kim Reid checks in a guest at the front desk. Below, a Monaco signature—a fireplace in the main lobby.

partitions, linoleum flooring and coat after coat of dingy white paint figured prominently.

One day in 1996, Sen. Daniel Patrick Moynihan, who had taken an interest in the abandoned building, was sitting in a restaurant across the street when he noticed suspicious activity at the E Street entrance. Moynihan put in a call to a former aide, Robert Peck, who had just been named commissioner of public buildings in the General Services Administration, the landlord for all federal government buildings. Further inquiry revealed that one of the government's oldest buildings had become a crack house.

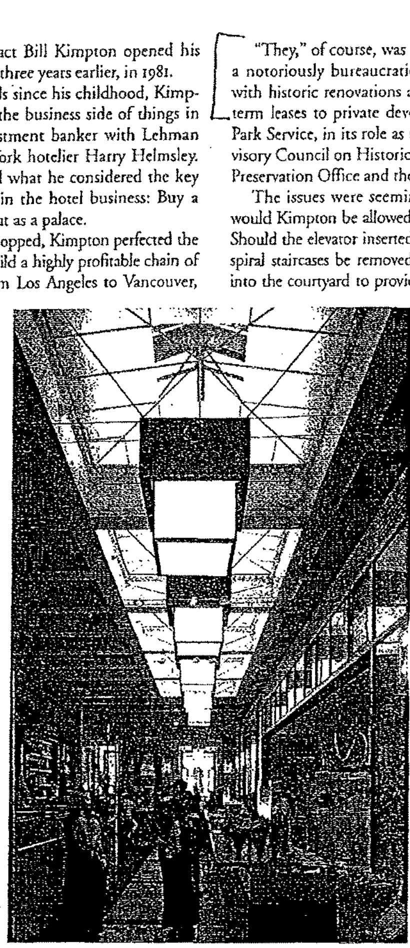
It was Art Turowski, a GSA civil servant, who first suggested leasing out the General Post Office building for private use, under an obscure statute that had never been used. Peck jumped at the idea. The GSA solicited proposals, and by April 1998 a San Francisco-based hotel chain, the Kimpton Hotel and Restaurant Group, had beaten out two other finalists, both of whom had proposed using the building for high-end rental housing combined with shops and restaurants. Housing activists in the neighborhood weren't pleased. But the GSA's selection panel concluded that a hotel would involve the least alteration to the historic structure while providing the greatest degree of public access.

ON THE EAST COAST it is generally believed that Ian Schrager, with his celebrity-studded Morgans in New York, pioneered the idea of the "boutique" hotel—which can mean many things now, but originally implied a small, intimate hotel with a distinctive style. But in fact Bill Kimpton opened his Clarion Bedford in San Francisco three years earlier, in 1981.

Although fascinated with hotels since his childhood, Kimpton had his first real brush with the business side of things in the late 1970s, when, as an investment banker with Lehman Brothers, he worked with New York hotelier Harry Helmsley. From Helmsley, Kimpton learned what he considered the key method behind his later success in the hotel business: Buy a dump, fix it up nice, and rent it out as a palace.

Although the Clarion Bedford flopped, Kimpton perfected the strategy over the next 15 years to build a highly profitable chain of mostly small hotels stretching from Los Angeles to Vancouver, each one designed in a unique high style and operated with playful charm. Traveling executives looking for an alternative to the generic, and upscale tourists looking for an experience, liked the formula so much they drove the hotels' occupancy rates well above the industry average. Locals, meanwhile, stood in line to get into the hotel restaurants, often run by celebrity chefs. The Kimpton Group's investors, including Paul Newman, Warren Beatty and Barbara Walters, also liked the annual returns of 20 to 25 percent they earned over the years.

By 1998, with the economy booming and hotel room rates soaring, Bill Kimpton was ready to go national, using his successful San Francisco property, the Hotel Monaco, as the brand name. The Monaco formula includes historic buildings, grand lobbies, bold-colored walls and fabrics, and afternoon wine hours featuring free massages or tarot card readings. Kimpton found a former telephone exchange in Seattle, an old bank in Salt Lake City, a railway exchange building in Denver, an office building in Chicago and a Masonic temple in New Orleans. There was no question that the old General Post Office in Washington would be the Monaco flagship—and Kimpton's most ambitious project to date.



Honoring the building's origins, the restaurant is called Poste.

What company officials couldn't know then was that Bill Kimpton would die in March 2001, after a brief battle with leukemia. Or that, following the September 11 terrorist attacks, the bottom would fall out of the hotel market. Or that the process of opening the Monaco in Washington would be their most drawn-out and difficult ever.

HAD GOT TO the point where I couldn't go to any more meetings," says Tom LaTour, the Kimpton Group's president. "They kept wanting meetings. And after the meetings, three weeks would go by and you'd call and they'd say, 'We'll get back to you.' "

"They," of course, was the government. There w
a notoriously bureaucratic organization with little
with historic renovations and absolutely none in m
term leases to private developers. There was also t
Park Service, in its role as trustee of historic landma
visory Council on Historic Preservation, the D.C. St
Preservation Office and the city's Commission of Fin

The issues were seemingly endless. How many
would Kimpton be allowed to punch through existin
Should the elevator inserted years ago in the middle o
spiral staircases be removed? (Yes.) Could additions b
into the courtyard to provide the 120 seats necessary t
restaurant profitable? (
the lease run for 99 yea
ton requested, or 33 as
ment preferred? (A co
60.) What does it m
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Government officia
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did exist was phenomen
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For their part, Kimp
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bureaucrats' focus on p
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"At one point, I di
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Anthony Costa, who
charge of the project a
named assistant admin
the GSA's regional
Washington.

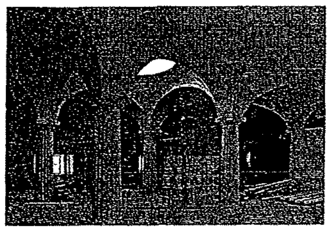
The breakthrough
two simple concepts.
government, as the
agreed to pay for all r
to the exterior of the b
well as removal of th
and restoration of the spiral staircase, at an estimated
million—significantly more than the GSA had expe
vest in the project.

The GSA also agreed to accept lease payments larg
the success of the hotel, in effect becoming a partner in
prise. The agency estimated that the deal would gener
$50 million for the government over the 60 years of the

For its part, Kimpton calculated it would need t
million into construction, engineering, furnishings
opening costs. With typical occupancy rates on its 1
the hotel could break even by charging an average ro
$200 per night. To provide investors with 20 percent
turns, however, Kimpton would have to do better th
not impossible, but no slam dunk either.

The lease was finally signed in December 1999, 20 months after Kimpton won its initial designation as developer. But the tussles between Kimpton and the government had by no means come to an end.

From the government's point of view, the fact that the General Post Office was a government-owned building and a historic landmark meant that volumes of regulations had to be followed. For starters, it meant that the government would have to approve all building contractors chosen for the project and that all construction workers would have to be paid union scale, whether they were unionized or not. Any hole larger than one inch in diameter drilled in a wall or floor would need to be vetted by all the relevant agencies. Signs, flags, plantings, paint colors—all of these, the government declared, would require its approval.



What was once a library would be transformed into the Paris Ballroom. Below, outside the ballroom during restoration.

Kimpton officials were horrified by the government's position. Such procedures, they felt, would cause interminable delays during construction and add millions to the cost. And how could they expect to operate a hotel, they asked, if every time they had to change a light fixture they had to get signoff from six different bureaucrats?

At one early meeting, held over speakerphones in Washington and San Francisco, tempers flared.

Usually, when we lease a building for 60 years, we can do whatever the hell we want with it, came the shouted message from San Francisco, where Kimpton's general counsel, chief financial officer and development staff were gathered. *This is a hotel, not a federal construction project.*

This is a national treasure and we are its trustees, was the equally loud retort through the wire from Washington, where the GSA's Turowski sat with half a dozen colleagues and an outside attorney advising the government. *There's no way we're going to simply hand over the keys and walk away.*

After the teleconference was abruptly terminated, there were fears at both ends of the line that the project was on the verge of collapse. But by this point, Kimpton had already poured serious time and money into the project, and had too much to lose from turning back.

The talks continued. When they weren't disputing procedures, the two sides feuded over preservation issues. It was clear that Kimpton's original designs would not survive the approval process required for a historic landmark. Although San Francisco architect Michael Stanton was the one who had first brought the post office project to Kimpton's attention, his experience with historic preservation was limited. So Kimpton brought in Mary Oehrlein, a Washington architect with a long list of preservation projects on her résumé—including having advised the GSA on the post office project.

"Mary was a godsend," says LaTour. The "histericals"—LaTour's term for the hard-core preservationists on the government side—"knew and trusted her. She'd go in and say, we're going to do it the way we did it over at that building, and they'd say okay."

It was Oehrlein who convinced the government that, for the hotel to be viable, there was only so much money available to invest in historic preservation. No private company could afford to do a "jewel box" restoration. It was necessary, she explained, to prioritize their concerns.

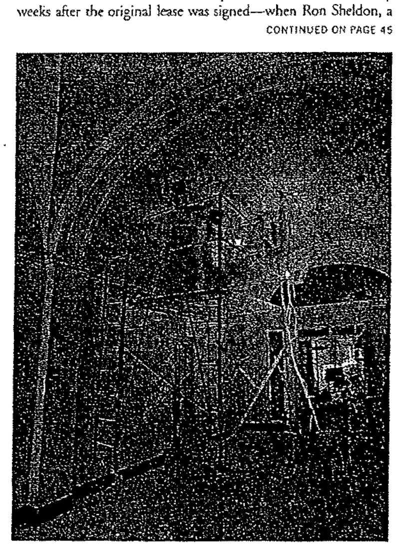
With different-color highlighters, the two sides went through the entire set of drawings as they indicated what areas were crucial to the building's historic character (the public areas and the exterior), those least crucial (the basement and the attic) and everything in between. Almost immediately, the number of contentious issues was cut in half.

In a typical horse trade, Oehrlein got Kimpton to agree not to put up walls disrupting the view of the ornate metal ceiling atop the old dead-letter office—a key preservationist priority. In exchange, Kimpton won permission to cover over a couple of windows overlooking the courtyard, to create needed public bathrooms.

There wasn't enough money to restore the old mahogany doors leading to each room and bring them up to fire code. Nor did the budget permit exposing the fireplaces, restoring the wooden floors, opening all the skylights or scraping all the old paint off the granite columns in the lobby. And in the end, the hoteliers acceded to a fairly tight regimen of government oversight on the project. In January 2001, the two sides finally signed a 55-page amendment to the lease. At last, construction could begin.

IT WAS A BITTER COLD Monday in the winter of 2000—only weeks after the original lease was signed—when Ron Sheldon, a

CONTINUED ON PAGE 45



PHOTOGRAPHS BY MAX MACKENZIE

Hotel

CONTINUED FROM PAGE 19

Kimpton construction supervisor, pulled up to the old post office for a walk-through with some would-be contractors. Looking …, he saw a funnel of steam rising from the …terior courtyard, "just like Old Faithful."

Sometime over the weekend, a huge steam pipe running through the basement, used to heat this and several nearby buildings, had burst. By the time it was discovered, so much steam had escaped into the building that the old post office had been turned into a tropical rain forest. Along some corridors, clouds of steam billowed from the ceilings down to within three feet of the floors. Tar from decades of cigarette smoke streaked down plaster walls so soaked they were soft to the touch.

It cost the government—which owned the burst pipe—an extra $1.9 million to repair the damage, and added several months to Kimpton's construction schedule. Then, as work was finally beginning in early 2001, a heavy rainstorm overwhelmed the frozen and neglected gutters, flooding the top floor.

But the biggest challenge in transforming a 19th-century office building into a 21st-century hotel was figuring out how to get water, sprinklers, heat, air conditioning, fresh air, electricity, cable and high-…ced Internet access to the rooms without …oing damage to the two-foot-thick walls and floors and the vaulted ceilings. The solution finally settled upon was to run the utilities around the building just beneath the ceiling of the first floor. Then, at every room, pipes and wires would be run straight up to the corresponding rooms on the three floors above. Eight holes for every room, about 1,500 in all.

It didn't take long, however, before the contractors discovered that the walls of Room 214 didn't exactly line up with the walls of Room 314. That was no problem back in 1842. It was a big problem in 2001.

For five weeks, construction ground to a halt while engineers came up with accurate drawings of where walls really were. Sometimes it was easy enough to move the drill holes a foot this way or that. Other times, it required that bathrooms be made thinner and toilets and bathtubs rearranged. More drawing changes. More delay.

"This is a building that wants to be a hotel. It just doesn't know quite how yet," joked Joseph Walker, the project supervisor for the general contractor, J.A. Jones/Tompkins Builders, in July 2001.

There is no precise moment anyone can point to when the relations between Kimpton and the general contractor began to sour. But by February of this year, "grave concerns" letters were flying back and forth after Sheldon, Kimpton's construction supervisor, warned general manager DeFrino and Kimpton executives back in San Francisco that it was unlikely the planned May 1 opening could be achieved.

Missing the profitable spring season in Washington's hotel market was no small matter for Kimpton. From the late-March Cherry Blossom Festival through mid-June, just about any good downtown hotel can count on selling out four days a week, plus ample tourist business on the weekends. Kimpton executives had been figuring on the spring revenue to turn in a profitable first-year performance in Washington and give its new hotel strong momentum going into the traditional summer doldrums. They also prided themselves on having opened nearly all of their hotels on schedule and budget.

For the Washington Monaco, it was not to be. After tense negotiations during which the questions of blame and financial penalties were left unresolved, the opening date was pushed back six weeks, to June 15.

KIMPTON'S current business strategy is pretty simple: Get most of the business advantages of being a hotel chain while convincing customers that you're not. Be the hotel chain for the people who hate hotel chains.

Rolling out the Monaco brand in seven cities has only made walking that fine line more difficult. That's why Bill Kimpton insisted that the Monaco buildings have a historic quality, emphasizing a strong sense of place and reinforcing the idea that there was nothing cookie-cutter about his properties. And while he maintained some common design elements—striped wallpaper, bold colors, a fireplace in the lobby—he was willing to pay one of his favorite interior designers, Cheryl Rowley, more than twice the normal fee to ensure each hotel had a unique look.

Unlike at the Willard or the Hay-Adams—two of Washington's other historic hotels—stepping into the Monaco was never meant to feel like stepping into a period piece. In Rowley's designs, there's a conscious attempt to create tension between old and new, swank and hip, serious and playful. Her goal, she explains, is to surprise guests, "to challenge their expectations but, hopefully, not their comfort zone."

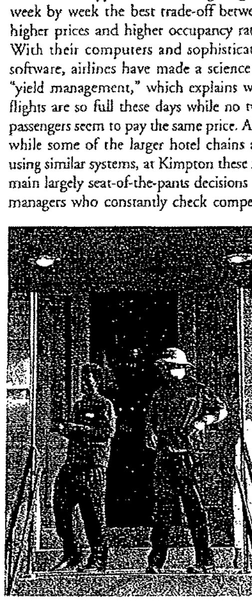
The eclectic formula, not coincidentally, also allows Kimpton to splurge on some things while scrimping on others, keeping the cost of furnishings and operations below that of competing hotels. The Monaco may spring for things like beige Le Corbusier chairs and a pumpkin-colored Mies van der Rohe chaise in the lobby, 300-count Frette cotton sheets and lots of public art. But at the same time, the rooms can be small, the bathrooms unremarkable and most of the furniture better looking than it is made. The exercise room, while adequate, hardly rivals the sports palace at the new Ritz-Carlton in the West End. There are no antiques or white-gloved doormen as at the Jefferson and the St. Regis, and surely nothing like the two-inch-thick towels and over-the-top floral arrangements at the Four Seasons.

"We don't want people walking into the hotel and thinking, 'I don't make enough money to stay here,' " says DeFrino.

Restaurants have always been a crucial component in Kimpton's formula—another way of creating an "experience" for hotel guests, a marketing buzz for the project and outsize profits for investors. For Washington, Kimpton found a hot chef outside Boston who had worked his way through some of Manhattan's best kitchens, from the Four Seasons to Le Bernardin to Lespinasse. More recently, Jon Mathieson had run his own restaurant at an inn in Tyngsboro, Mass. At the Monaco, his challenge was to create an American brasserie with food less fussy and formal than he was used to. By keeping entree prices in the low 20s at dinner and high teens at lunch, Kimpton hoped to create a place upscale Washingtonians might patronize as often as once a week.

For the hotel, Kimpton's marketing and pricing strategy is to fill a niche for the downtown business traveler between the Willard and the Hay-Adams on the high end and the Grand Hyatt and the J.W. Marriott in the middle of the downtown market. Few guests will wind up paying the posted "rack rate" ($350) for a standard double during the week. Weekend rates are generally far lower. And during the week, almost any business or nonprofit can qualify for the "corporate rate" ($290), while even lower rates ($190 to $245) can be negotiated with companies and national travel consortia that list the Monaco among their preferred providers or book hundreds of room nights a year. To provide a foundation of advance bookings, the Monaco expects to rely on meetings business ($160 to $290, depending on the time of the year) and government-rate travelers ($150). There are no plans, however, to fill rooms with airline crews ($89) or citywide convention business (as low as $99).

It's left to reservation manager Gene Ward to get the most profitable mix of those various types of business, figuring out week by week the best trade-off between higher prices and higher occupancy rates. With their computers and sophisticated software, airlines have made a science of "yield management," which explains why flights are so full these days while no two passengers seem to pay the same price. And while some of the larger hotel chains are using similar systems, at Kimpton these remain largely seat-of-the-pants decisions by managers who constantly check competitors' prices on Web sites and reports put out by industry research groups.



On the alert: Daveren Anthony and doorman Steve Baxter stand ready at the entrance.

As the Monaco headed into its opening in June, there were 4,000 room nights on its reservation book, 12 percent of total capacity for the balance of the year—respectable, for a hotel that hadn't opened yet. Still, it was clear Ward would have to rely on lower-priced group and government business to carry the new hotel through the summer drought, with the expectation that bookings would pick up in the fall. About 40 corporate accounts had been signed, including the Inter-American Development Bank, a few entertainment industry bookers and a dozen law firms.

As the sales staff would be reminded, however, getting such commitments depends as much on relationships with agents as on offering a good price and location or a cool, hip environment. In order to persuade a meeting planner to book a big government group in August, for example, the Monaco had to agree to take another of her group clients in the busy September season, when Ward would have preferred to avoid group business altogether. And a number of law firm travel planners said they were inclined to stick with other hotels, largely because of their willingness over the years to accommodate last-minute reservations and cancellations, without penalties, even in high season.

Such competitors, though, have also been scrambling this summer. The Willard, the St. Regis and the Hay-Adams advertised midweek rooms at rates as low as $199 on their Web sites. But Ward decided not to match those prices, particularly at a time when the sales staff was trying to negotiate annual contracts for next year with corporate clients at higher rates. The Monaco's Web site held firm at $245.

"We don't like getting into bidding wars, particularly in a new market," explains Steve Pinetti, Kimpton's senior vice president for sales and marketing. "You never get your rates up if you start too low."

THE FIRST meeting of the new staff—the bellmen, the housekeepers, the front desk staff—was supposed to have been at the hotel on this Sunday in late May. Construction delays have forced DeFrino not only to hold the meeting off-site, but to move back the opening by another week. Still, he is happy to have the extra time for training.

"There's a certain casualness in our style and attitude that may not fit this property," he explains to a visitor. "We're going to need to be more formal, the service is going to have to be crisper and sharper, more like a traditional luxury hotel. It's a different customer than we're used to."

Like many in the hotel industry, DeFrino is a lifer. He started as an illegal—an underage dishwasher at a popular tourist restaurant in his native Connecticut—and worked his way up from assistant housing manager in the Ritz-Carlton chain to room director at the old ANA Hotel in Washington. In 1997 it was Kimpton that finally offered him his first shot at being a general manager, at the new Seattle Monaco.

The wisecracking DeFrino is a master of keeping lots of balls in the air without making lists or giving off even a hint of tension or anxiety—traits that will serve him well as the Monaco scrambles toward opening day. His knack for connecting with the staff contrasts sharply with the European hauteur common among general managers.

Now, sitting before him on inflatable chairs in a meeting room in a nearby apartment building are the dozens of people he's hired over the previous year, many of them recruited in just the last month from what proved to be a tighter-than-expected hotel labor market.

There are Thomas Ferguson and Jeffrey Crew, great pals ever since they went to Roper Junior High in Northeast Washington 30 years ago, who will clean public areas and set up banquets. Both are single parents sending kids to college; both plan to continue working full shifts at other hotels.

Every one of the dozen or so housekeepers is female, and nearly all are Spanish-speaking. Many have come from a group of small hotels recently closed for renovations by a local investor group that has contracted with Kimpton to operate them as boutique hotels. A few of the women nervously fidget with immigration and Social Security cards.

Many on the front desk crew, young and college-educated, have been lured away from the Westin, the L'Enfant Plaza, the George or hotels in other cities. Others came from the Topaz and the Rouge, two new boutique hotels in town renovated and managed by Kimpton under a contract with a private investment firm. All say they were attracted by the building and the company's reputation for not operating its hotels by numeric formulas and inflexible rule books.

"I'd been following Kimpton for some time, and when they said they were coming to D.C., I said I wanted to be part of that," says Kim Reid of Upper Marlboro, who joined Kimpton from the George.

Three of the young bellmen are in the graduating class of the District's Marriott charter high school, partly financed by the Marriott hotel chain to help train workers for the city's hospitality industry. Another is a student in George Washington University's hotel program.

"Three weeks from today there will be guests in the hotel, a lot of them—maybe more than we will want," says DeFrino, winding up his pep talk. "This is an important hotel for Washington, but without you, the hotel is just a bunch of marble . . . There are lots of fancy buildings, but only a few great hotels."

In the ensuing weeks, everyone is put through a training regimen of classroom discussions and role-playing cooked up by Kimpton's director of hotel openings, Jorge Trevino, assisted by managers flown in from other Monacos.

"You have a personality, we expect you to use it," Trevino tells the housekeepers at one session. It doesn't matter, he explains, if a guest asks a housekeeper about extending his stay. Say yes—and then contact the front desk on his behalf.

It's not clear how much of Trevino's pitch some of the housekeepers take in. But he's firm about speaking English rather than Spanish, his own native tongue. "We need to speak in the language of our guests," he explains.

Although the Monaco isn't starting out as a union hotel, to attract staff it has no choice but to abide by the daily limit of 15 rooms per housekeeper that is standard at union hotels. But there's a problem. Kimpton doesn't like its housekeepers to use the bulky linen carts ubiquitous in chain hotels, but unlike its other properties, the Washington Monaco doesn't have a lot of storage rooms for linen and supplies. As a result, DeFrino will have to spring for a couple of extra housekeepers simply to walk the corridors resupplying their colleagues.

Trevino ticks through other matters: For nightly turndown service, a complete change of sheets if the guest has taken an afternoon nap, then leave the customary Viennese chocolate along with one of 50 different cards that reveal a bit of Washington historical trivia and the weather forecast for the next day.

On another day, Joe Schwingler, general manager of the New Orleans Monaco, puts the bellmen through their paces. "Let's not confuse energy with speed," he says. He goes over the checklist of things to point out upon ushering a guest into a room: the complimentary shoeshine, the minibar and coffee maker (with a plug for Starbucks), and a bit of the building's history to go with the bust of Thomas Jefferson atop the armoire. And don't say, "I'll get you some ice," Schwingler advises: It sounds like an inconvenience. "Allow me to get you some ice" sounds like you don't mind doing it.

And there are the more prosaic topics. Never point with your finger—use an open hand. And never look at the tip—just put it in your pocket, thank 'em and leave.

With the back office staff, there is much discussion about how to answer the phones. In the end, they decide to leave out the "This is Jennifer," keeping it to "Good afternoon, Hotel Monaco Washington. How may I direct your call?" If a caller asks for Mr. Jones, the reply is "It's a pleasure to connect you," but for security and privacy reasons never give out the room number.

Because of its reliance on return customers, Kimpton has an elaborate system to track guest preferences and activities that, in theory, allows managers to provide customized service even without a customer's asking for it. If Mr. Brown seems to order beer rather than wine with his room-service meals, he might find a couple of complimentary Sam Adamses on ice on his next trip. And once Ms. Green, like many female business travelers, expresses her preference for two beds (one to sleep in, one to spread out her things on), then that's what is automatically set aside for her on her return.

"Remember: Eye contact, smile, speak first and engage in polite conversation," Trevino reminds the front desk crew on their first day of orientation. And while there is no script to follow, "Howdy" and "What's up?" aren't in the repertoire. And never call a guest by his or her first name.

The Monaco routinely equips doormen with radios so they can read the name off the luggage tag of an arriving visitor and call it ahead to the front desk people, who can then pull up the file on the computer and welcome the guest by name—a big priority in the Kimpton playbook. And don't bother with the industry fixation on checking in guests within two minutes, advises Trevino. Unless they're in a hurry, take an extra moment to ask guests if they need a wake-up call, special newspapers or a restaurant reservation.

"The idea is to treat people as if they were guests in your home," says Trevino, wrapping up the session.

IT'S SUNDAY, June 23, the day the Washington Monaco *has* to open.

The night before, DeFrino made a point of asking the construction people not to park their trucks out front. By 9 a.m. the trucks are four deep outside the entrance. Another hot, sticky day.

In the lobby, the trees and plants have been delivered, but three sets of workmen are still finishing the ramps leading to the guest rooms: one set installing the metal railings, another laying the carpet, a third painting the wooden bases into which the railings are being inserted.

"We're somewhere between exhausted and delirious," says DeFrino, who spent much of the previous night schlepping furniture, installing telephones and stashing construction tools in those rooms he knows will never be ready by day's end.

Corporate officials, managers from other Kimpton hotels, sales staffers—anyone who can install a light bulb has been pressed into service. In the fourth-floor corridor, Don Trainor, Kimpton's vice president for construction in from San Francisco, is on his second day of putting a coat of white paint on the baseboards, while Colin McBeath, the assistant general manager, puts a coat of red on the fire extinguisher box.

Nearby, Room 438 is a beehive of activity: A plumber is fixing a toilet while an electrician replaces the cracked light in the bathroom while Edilma Reyes, a corporate construction project manager from San Francisco, paints the windowsill while a carpenter installs the electronic lock on a temporary plywood door to the room, spilling sawdust on the new rug. A housekeeper removes the caulking gun from the pale yellow Frette duvet cover and folds the orange pashmina throw at the end of the bed. The Sony Dream Machine and the CD player flash 12:00.

At 10:25, Alan Cypress—the first of the 100 or so EPA guests expected tonight—dripping in sweat and exhausted from his overnight flight from California, arrives at the front desk, where carpenters are still hammering in some of the inlaid wood. The chief concierge, Edward Munz, handles the welcoming ceremony and asks for a credit card to cover incidentals (the EPA has already paid for the room). Cypress has none, and after a few flustered minutes, agrees to leave a small cash deposit instead.

Bellman Daveren Anthony, one of the Marriott graduates, takes Cypress's small bag and accompanies him past the ramp crew, past men taping down the corridor carpet, past DeFrino with a ladder in his hand, to Room 205. Wisely, Anthony decides Cypress is probably in no mood for a spiel on the building's history. He points out the chocolate shaped like a little saw on the nightstand and the note apologizing for the ongoing construction, which has left port-a-potties still lined up in the courtyard. Then the young bellman fills the ice bucket, asks if he can help in any other way and leaves. No tip.

It's a less-than-auspicious beginning. At the front desk, the computer, finally working, shows only 35 rooms as "VR"—vacant and ready. Sixty-four to go.

At noon, as the paintings are finally hung in the lobby, DeFrino huddles with his "floor managers." Trevino says his second-floor crew—mostly sales and marketing staff—could get another four to five rooms in shape if they could get a few more housekeepers. Niki Leondakis, Kimpton's vice president for hotel operations, says her team of mostly corporate officials could turn four or five more rooms on the third floor if she could get some painters. The fourth floor remains the big question mark, with armoires still to be assembled, television sets mounted, minibars stocked, locks programmed and rooms cleaned. DeFrino radios in the requests to the various contractors and heads for the fourth floor.

Meanwhile, guests are arriving at a steady pace. The front desk crew, whose practiced routine is put off by slow computers and the construction going on all around, appear tentative, even flustered. It turns out many of the prospective EPA interns have neither credit cards nor much experience checking in to fancy hotels. It is left to the young bellmen to ease the tension, chat up the guests and make them feel at home.

At 2:30, a guest arrives in a wheelchair. The special elevator at the street level is working, but it empties onto a corridor now made impassable for a wheelchair by all the furniture and supplies that have been stashed there. Three bellmen carry guest and chair up the stairs, but clearly he's not happy about it.

At 3 o'clock, most of the building contractors quit for the day; it's also the shift change for bellmen, housekeepers and front desk staff. So far, 19 guests have checked in and the computer shows an additional 46 rooms as VR. Heading for the locker room, Anthony, the bellman, hails the chief concierge: "Edward, I had fun today."

DeFrino, however, is not having fun. "This is not up to the standards I'd like for an operating hotel," he says. At 4 p.m. he asks his floor managers one last time how many rooms they can absolutely deliver. Although he hasn't mentioned it to anyone, he's booked reservations at a Marriott down the street just in case. When the final report comes in, he adds it up: 97 rooms, in all likelihood enough. "I don't know how, but we made it," he says as he slumps in a Le Corbusier chair.

But there is one more big problem. At 8 the next morning, the EPA group expects to gather in the fourth-floor ballroom, the only large meeting room even close to completion. But the carpet, custom-made in Spain, is not fitting properly. When the sections are put end to end and the patterns lined up, there are big bulges of extra carpet at half a dozen points.

Earlier in the day, Sheldon, the construction supervisor, found a carpet company from somewhere in Virginia that claimed it could fix the problem. DeFrino now listens as the carpet crew chief describes how he intends to boil water and strategically soak the wool so it will shrink enough to eliminate the bulges—but not so much that the edges of the carpet pull away from the wall.

"Don't worry," the head guy assures DeFrino before running through the finances of the operation: five guys, $50 each an hour, 18 hours. Then he asks DeFrino if he knows where he can get some coffeepots to heat the water.

DeFrino rolls his eyes and laughs as he heads down Robert Mills's long marble corridor. After a year of planning and preparation, it's come down to this: carpet voodoo.

BY THE TIME all the dignitaries gathered for the official ribbon-cutting on July 17, the Hotel Monaco's opening-day drama was a distant memory.

Ninety-seven guests had checked in that first night, precisely the number of vacant and ready rooms. And at 5 the next morning DeFrino and his crew had arrived at the ballroom to begin setting up chairs and tables for the EPA breakfast. The carpet shrink had actually worked.

It took another week for all the building contractors and furniture assemblers to finish the fourth-floor rooms. And persistent problems with water leaking through the foundation forced Kimpton—at the government's expense—to bring in a special contractor to dig up around the building and apply a sealant. The first-floor rooms would not open for several more weeks.

In spite of its construction problems, the hotel opened to generally positive reviews from those who stayed or stopped by. Former senator Moynihan declared the old-on-the-outside, hip-on-the-inside new hotel a "great addition" to the neighborhood. "They really know what they're doing," he said.

The chairman of Hecht's was so excited he's decided to shift most of his company's business there. And while the salespeople have yet to attract any visiting teams from MCI Center (there are 18 rooms with extra-long mattresses and elevated shower heads, just in case), they were able to snare Britney Spears and her busload of associates when they played MCI in July.

Even a few former critics of the project were on hand. "My hat's off to the GSA," said Charles Docter, a housing activist who had opposed turning the General Post Office into a hotel. "They were right and we were wrong. It is a far better use to have it as a hotel, because many more people will see the beauty and the historic nature."

Things weren't going so well at the restaurant, called Poste. Although the early buzz was favorable, there was continuing tension between chef Mathieson, whose experience and ambitions ran to "destination" dining, and Kimpton, which was interested in having a casual, affordable restaurant and a brisk catering business for the hotel function rooms. On the day of the official opening, Mathieson quietly gave word that he would be returning to New England, where an investor had offered to stake him in a new restaurant. Kimpton was scrambling to get a new chef in place by mid-September.

As for DeFrino, in his new role as Kimpton's East Coast manager he was spending much of his time on two more Washington hotels that will open this fall under Kimpton's management. He'll also oversee new hotels planned for Boston, Cambridge and New York City.

When it came time for the speeches at the opening ceremonies, Kimpton executives and GSA officials were all smiles, full of genuine praise for each other's professionalism and commitment to the project. Noticeable by its absence was any mention of the general contractor of the unfinished building.

Nearly every speaker took note of how much the neighborhood had changed in the years the building had been vacant. The opening of MCI Center had sparked development that was turning the East End into the city's hot new area. More than 2,000 new housing units were planned or under construction, along with new homes for the Shakespeare and Woolly Mammoth theaters. The International Spy Museum was about to open across Eighth Street, while a splashy new office and retail complex was going up across Seventh Street, in what was the original Hecht's building. The new convention center, the Newseum and a 13-screen cinema are also expected to open in the next two years.

The postmaster general could not attend the ceremonies that day. But from his office in a less-than-grand building at L'Enfant Plaza, he sent along this succinct message to mark the rededication of the building where his predecessors had built the network that helped unite the sprawling new nation:

"We want it back."