

# OVERSIGHT OF THE GENERAL SERVICES ADMINISTRATION

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## HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT  
REFORM AND OVERSIGHT  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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MAY 10, 1996

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# OVERSIGHT OF THE GENERAL SERVICES ADMINISTRATION

FRIDAY, MAY 10, 1996

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,  
INFORMATION, AND TECHNOLOGY,  
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 311, Cannon House Office Building, Hon. Stephen Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Maloney, Kanjorski, and Peterson.

Ex officio present: Representative Clinger.

Staff present: J. Russell George, staff director and counsel; Mark Brasher, professional staff member; Andrew G. Richardson, clerk; Miles Romney, minority counsel; and Mark Stephenson, minority professional staff member.

Mr. HORN. With a quorum present, the Subcommittee on Government Management, Information, and Technology will now come to order.

Established in 1949, the General Services Administration provides essential functions for the Federal Government. Congress created GSA to provide an economical and efficient system to supply goods and services to the Federal Government. Its creation, as we all know, was the result of a very fine recommendation of the first Hoover Commission.

In the current fiscal year, GSA's budget is \$257 million. It currently has a staff of approximately 16,000 employees. It oversees Government property and services totaling \$60 billion each fiscal year, and GSA serves a very essential function, as I noted.

GSA has not been reauthorized in nearly half a century of its existence. I believe this harms GSA, since its programs do not have regular congressional input. The result of this is that GSA's authorities are weakened by the Federal departments and agencies which seek independent authority to perform activities GSA was created to provide. For example, I understand that the General Services Administration controls only 40 percent of office space used by Government departments and agencies. This limits its abilities to efficiently and effectively manage the Government's real estate portfolio.

In addition to the lack of clear direction from Congress, GSA is split between policy and oversight, on the one hand, and the provision of services, on the other. The National Performance Review

recommended changes in GSA to separate policymaking from the delivery of services. However, a more important question which we will pose today is: What is the core mission of the General Services Administration? The answer to this question is fundamental to the issue of GSA's future.

I congratulate the Administrator of General Services, David Barram, on his new position, and we look forward to hearing his vision of the GSA. And I am now delighted to turn to the chairman of the full committee, who has joined us this morning, Mr. Clinger of Pennsylvania.

[The prepared statement of Hon. Stephen Horn follows:]

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## Opening Statement of the Honorable Stephen Horn, Chairman

### Subcommittee on Government Management, Information and Technology

May 10, 1996

Established in 1949, the General Services Administration provides essential functions for the Federal Government. Congress created GSA to provide an economical and efficient system to supply goods and services to the Federal Government. Its creation was the result of a recommendation of the first Hoover Commission. In the current fiscal year, GSA's budget is \$257 million. It currently has a staff of approximately 16,000 employees. It oversees government property and services totaling \$60 billion each fiscal year. I repeat, GSA serves a most essential function for the Federal Government.

GSA has not been reauthorized in the nearly half-century of its existence. I believe this harms GSA, since its programs do not have regular congressional input. The result of this is GSA's authorities are weakened by Federal departments and agencies which seek independent authority to perform activities GSA was created to provide. For example, I understand that GSA controls only 40 percent of office space used by Government departments and agencies. This limits its ability to efficiently and effectively manage the Government's real estate portfolio.

In addition to the lack of clear direction from Congress, GSA is split between policy and oversight on the one hand and the provision of services on the other. The National Performance Review recommended changes in GSA to separate policymaking from the delivery of services. However, a more important question, which we will pose today is: What is the core mission of the General Services Administration? The answer to this question is fundamental to the issue of GSA's future.

I congratulate Administrator of General Services David Barram on his new position. We look forward to hearing your vision for GSA, and your views as to GSA's core mission. We also welcome our other witnesses.

### **Leasing Office Space**

**Savings:** between \$500 million and \$1 billion per year

- ◆ GSA overpays for office space. For example, in the Los Angeles World Trade Center, the Federal Government pays \$20.73 per square foot, while private sector tenants pay a market rate of \$12.50.
- ◆ When the Federal Government leases 10,000 square feet, it does not measure its office space to check whether it indeed received 10,000 square feet. Private firms have offered to perform lease audits at their cost -- only getting paid if they discover overcharges. This is a very good indicator that GSA is overpaying.
- ◆ GSA is required by an Executive order to locate Federal agencies in the central business district of large cities. This has the effect of increasing costs, and often reducing service, since agencies are far from their customers.

Example: "In Long Beach, I moved my congressional office from the downtown Federal Building named after my predecessor because it allowed me to save \$50,000 in rent per year, and also allowed me to move my office into a building with free parking for constituents. If the President were allowed to dictate the same procedures for Congress, I would not have been able to save these funds," noted Congressman Horn, Chairman of the Government Management, Information and Technology Subcommittee. Every Federal agency faces similar dilemmas.

- ◆ CB Commercial estimates that GSA can save \$1 billion per year by renegotiating existing leases, and taking greater advantage of private sector expertise in the lease audit area.
- ◆ Arthur Andersen, working with GSA's own employees, determined that the agency could save a minimum of \$565 million per year by adopting these strategies.

### **Surplus Personal Property**

**Savings:** \$100-200 million per year

When a Federal agency no longer needs property (such as computers or bulldozers), it can be screened for use by another agency. If no agency wants it, the property may be donated to any number of groups, from law enforcement groups to African Elephant Conservation. Any property which is either unwanted by an agency or an eligible donee can be sold.

Unfortunately, Congress has found the following problems:

- ◆ Some agencies do not screen property adequately, which results in increased costs, since an agency must then either go without the property, or purchase it at full cost.

- ◆ Other agencies donate property prior to screening by another Federal agency.
- ◆ Other agencies have inefficient sales programs. The Defense Department loses money on its program or selling surplus property, despite the fact that the property is given to the disposal agency for free.

#### **Fleet Management**

**Savings:** one time savings of approximately \$3 billion. Much smaller annual savings.

Selling the Federal motor vehicle fleet as a private corporation would allow the Federal Government to:

- ◆ realize a large up-front payment,
- ◆ reduces bureaucracy by 800 people,
- ◆ promotes competition for vehicle services between different suppliers,
- ◆ allows GSA to focus on policy and oversight, other agencies to focus on core competencies, and
- ◆ an ESOP could be structured to the benefit of the existing workforce, giving them a stake in a private firm.

GSA and the Army had agreed to allow GSA to take over Army's motor vehicle fleet in Europe, savings millions of dollars. Additionally, GSA would perform this function with only 50 personnel, as opposed to the 500 which the Army currently uses. This has been held up because OMB refused to approve an increase in employment at GSA (even if it were matched by a tenfold decrease in the Army FTE level). A privatized fleet would have no such barriers to efficient operations.

#### **Travel Management**

**Savings:** \$309 million per year

- ◆ GSA has proposed legislation to improve travel administration to reduce costs.
- ◆ The Committee agrees with the Administration. The Federal Government has been successful in reducing its administrative costs associated with travel from 50 percent to 30 percent of all travel costs. We can do better.
- ◆ This legislation would give incentives to agencies and employees to reduce costs of relocation and temporary duty travel and conform Federal practices to those in the private sector.

**Total Savings from Management Improvements:** \$3 billion up front, \$909 million to 1,509 million per year thereafter. Over five years, that amounts to between \$7.8 billion and \$10.8 billion.

Mr. CLINGER. Thank you very much, Mr. Chairman. And I just very simply want to commend you for holding this very important hearing. As you have indicated, GSA has not been reauthorized in over 40 years. It is a vital agency, and it is one that performs many, many very important functions for this Government, and indeed, I think needs to have the kind of oversight that we are providing through this hearing and through the work of this committee.

I would join you in saying I am looking forward to the testimony of our witnesses. I also want to join in welcoming and commending Mr. Barram on his appointment and wish him well as he assumes the stewardship of the GSA. I look forward to hearing his discussion and yield back.

Mr. BARRAM. Mr. Chairman, David Bibb, the Deputy Commissioner of Public Buildings Service is here, and Mr. Davis is not.

[Witnesses sworn.]

Mr. HORN. Again, formally, you have a great responsibility, and we hope to explore some of that today. So our process here is for you to summarize most of your statement. Your statements are automatically put in the record after each witness begins the testimony; so you don't have to read it all, but give us your perspective.

#### **STATEMENT OF DAVID J. BARRAM, ACTING ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION**

Mr. BARRAM. Thank you, Mr. Chairman, Chairman Clinger. It is an honor to be with you today. I have been looking forward to this hearing because I have been eager to talk with you about Government in general and GSA specifically. I have been impressed with how seriously you take the subject, and I do too.

You have my written statement, which describes my private-sector background and outlines some of my thinking about Government management and how I will approach the future of GSA. With your permission, I would like to elaborate on two of the points I made in that written statement.

I hope my comments on how I see changes in Government and how these changes need to be driven by evidence-based decision-making will help us as we talk today. You may recall that I said in my statement that change is the dominant factor in our lives. I think some time ago—I don't know whether it was 2 years ago or 5 years ago—change was important to us, but it crossed the line to the place where it is now dominant in our lives, and it makes a huge difference every day.

We are all enamored with the potential for dramatic change in Government, which finally seems within our reach. Some see it as revolutionary, some call it "re-engineering," and maybe it is a little bit of both. Whatever it is, it is real, and almost nobody dares anymore to advocate the status quo.

And I am certainly one of those who welcomes dramatic change. In fact, I believe we have already crossed the line toward better Government, and it is a line of no return. We have infected the Federal workplace with the ideas which drive the best organizations, ideas like accountability for results, empowered workers, shared decisionmaking, vision-led management, tender-loving customer care, performance measurements—you know the list.

What that list of changes—will it impact the way we work? I think it has to. Just look at the way we have to change our management practices. Better management no longer means more control; it means more trust and more accountability. In those workplaces where performance measures are in place, employees who know the most about their business will be acknowledged as the best qualified people to make decisions. They will be empowered to act as long as they and their manager agree on their organization's goals and management expectation.

This means that tomorrow's management paradigm will require managers with the courage to hold their employees accountable, and it also means those managers will have to allow their employees to make mistakes. Take those changes a step further up the ladder, and you can see that managers who build risk-taking into their businesses need to be spared oppressive oversight from traditional Government sources like your offices and mine.

We will all have to work together if we are going to really make Government work better and cost less. This shared decisionmaking means our labor/management partnerships have to be real because none of these changes will work if we do not develop a stronger culture of mutual trust.

As you can see, I think this dramatic spirit of change will have a profound effect on how we manage and how you hold us accountable. Change will dictate how we cope with the need to constantly reinvent ourselves as individual workers and as organizations.

We will have to make major decisions on every aspect of our organizations, and this brings me to the second point I wanted to talk with you about; and that is my passion to see us make decisions which are based on evidence. Real evidence-based decision-making has to be universal. In an environment where each event has multiple reviewers, even one decision that is solely driven and based on power and influence really poisons the well.

The last idea I want to mention is the vision thing, or really understanding an organization's core mission. There is no limit to what good people can accomplish if they have good tools, the freedom to act, and a clear sense of what their organization is about. In fact, I believe that it is a critically important role of a leader to understand the shared vision of an organization and mesh it with his own.

Since I arrived at GSA in March, I have been working at developing this vision and have been happily surprised at just how good GSA is. I have been pleased to find a high level of confidence among our managers, a strong focus on our customers, and an overall dedication to excellence.

The strength of our team at GSA gives me confidence that I can apply the lessons I learned in the private sector. As I said in my statement, I come to you not as an expert on GSA, but as one whose strengths and experiences result in a management philosophy that embraces change, innovation, and partnerships.

I do know what it is like to scramble for cash to meet a payroll and what it is like to dramatically downsize. I have experienced explosive growth that strains cash and requires unexpected costs to meet demand, and I have experienced deep drops in sales. When these burdens were heavy and when the exhilaration was high, in

both situations, I saw that the people getting it done knew the core mission.

Can I tell you today that we have our sights set equally firmly on our core mission at GSA? Honestly, I don't know yet; but I believe we have a strong working hypothesis. The FORM analysis at Arthur Andersen has been invaluable in helping us understand our strengths and allowing us to imagine how to move ahead smartly.

At the end of next week, we are bringing together our top managers to discuss our core mission and to look at how we can integrate the FORM results in our plan for the future. Even before next week, though, there are three things I already know what we want to do.

One, we want to be so good at customer service that our customers will brag about our service. We are already there or pretty close to it in FSS and FTS, and we are getting there—and I am confident we will get there—in PBS, too. And I don't think that is something that a lot of people ever expected.

We must be just as good at managing governmentwide policy—that is the second idea—as we are at running these customer-service organizations, both. This means we must help agencies accomplish their missions by understanding their needs and removing obstacles within our control.

And, three, we will become a model Federal work place. We already create and provide excellent spaces for everyone in the Government, almost everyone. We also want to lead the way toward working better in those spaces. We are taking one small step toward that end with our decision to make sure that every GSA employee has access to the Internet by Flag Day.

You can probably tell that I am proud to be leading GSA at this amazing time in our national life. It is an agency that I think has received less praise than it has deserved. I could be tempted to brag about our achievements, like the \$246 round-trip airline ticket from here to Los Angeles; our rock-bottom, long-distance rates; our GSA advantage which lets customers buy over the Internet and get their product the next day; our core management group which has worked with the courts to design and build appropriate courthouses; but I will resist that temptation so we can get on with your questions.

I said earlier that I have been impressed with the team at GSA, and with your permission, I would like to introduce the three of them today. David Bibb is the Deputy Commissioner of Public Buildings; Marty Wagner, Associate Administrator, Policy, Planning and Evaluation; and Frank Pugliese, Commissioner, Federal Supply Service.

I like what they have accomplished, and I like what we do. I believe that we have accomplished a lot and are very aware of what we still need to do, and it's substantial. I look forward to sharing our progress with you, and, again, I thank you for this opportunity, and I will entertain any questions that you have.

[The prepared statement of Mr. Barram follows:]

Chairman Horn, and other distinguished Members of this committee, it is an honor to be with you today. I am David J. Barram, Acting Administrator of the General Services Administration.

I thank you for inviting me to share with you a brief look at my professional background in the private sector and how those skills and experiences have shaped my views about government and GSA. I also want to share with you my thoughts as the new Acting Administrator and give you a sense of where I would like to see GSA go.

I come to government service from the private sector in California. My 27 years of professional experience was formed in the competitive and rapidly changing world of information technology -- first at Hewlett-Packard, then at Silicon Graphics and finally at Apple Computer.

Starting from a more focused career in corporate finance, my interests -- and subsequently, my responsibilities -- grew into a more expansive, comprehensive look at corporate management and productivity issues.

It was at Hewlett-Packard -- under the leadership of the late David Packard -- that I learned first-hand about empowerment and accountability, innovation and risk-taking, reengineering and reinvention -- long before these terms became fashionable. Under Mr. Packard, we did these things every day. We saw change as an opportunity to grow both personally and as a company.

In 1983, I left the 80,000 employees at Hewlett-Packard and joined Silicon Graphics as its first CFO. Silicon Graphics was a classic high tech start-up company with 30 people. As you know Mr. Chairman, 30 people have to work together and get output. There's no room for just occupying a job.

I then took these experiences to Apple ... into a culture that had adopted change and flourished with it. In fact, while I was at Apple, we reinvented the company three times. We recognized that change and improvements were never-ending.

So ... I come before you today, not so much as an expert on GSA and government programs and policies -- like most of us new to government, everyday brings a new lesson. I come here as one whose strengths are in management driven by a philosophy that embraces change, innovation and partnerships. Those are the experiences and qualities I offer this government and GSA.

Since I arrived at the agency in March, I have been very happily surprised at how good GSA is. I was pleased to find a high level of competence of the

managers, their focus on their customers, and the soundness of their strategic course.

So, instead of approaching the agency and employees with a "fix-it all" mentality -- based on false perceptions about GSA -- I quickly changed my goal. I want to help create an agency-culture that can give the best service at the best price to its customers, which will, in the end, best serve taxpayers and help restore the public trust in our government.

I believe we should always ask ourselves if our paradigm needs changing. I believe in strong, creative and fast action. I also believe there are no quick fixes. But if my contributions result in moving GSA noticeably further along the path of continuous improvement, I will have been successful.

To set the stage, I need to express five philosophical beliefs that drive my thinking:

**1. Government agencies are not businesses.** All organizations can use good practices, call them business practices if you like. But, we do not have a bottom line and usually have limited ability to change prices and thus volume. So, I am not hung up on making this government agency more like a business.

**2. We need to thrill our customers, not just serve them.** Customer satisfaction is a hygiene factor; managers know it **must** be done simply to survive. Now, we have to thrill our customers. And, I believe we can do that. In fact, we have done just that in parts of GSA.

**3. Change is the dominant factor in our lives** - our work lives and our personal lives. That means we have to be part of cultures that celebrate change and allow employees to make decisions and be expected to adapt. We need to create a culture that **sees** opportunity in change. We are beginning to get there, although we have some parts of GSA that are stuck in the past ... some people who fear change and therefore resist it. We will focus hard to break that mind-set. There are good, competent people who need to see the new world and believe they can be successful in it. It is my job to help them move forward.

**4. Washington sometimes feels like an "Evidence Free Zone."** In business, you **must make decisions on truth and reality**, or you'll go broke. It is hard to go broke here, but I believe we would save lots of money and earn the respect of the taxpayer if we would be just as vigorous about evidence-based decision making as business has to be.

**5. We usually move too slowly in government.** Because we have a system of government that is based on fairness, efficiencies are sometimes forsaken. As we move through the process of change, we need to focus on how best to

maintain the delicate balance of fairness and efficiency in the daily operations of government.

How can my philosophy impact GSA and its mission to manage the assets of the government and provide quality work environments for Federal employees?

**First ...** I believe we at GSA should be honest about our work output. What we do well, we should continue and even grow. What we do poorly, we should fix ... or delegate or contract out to someone who can do it better.

However -- and I want to really emphasize this point -- in our collective search for better ways to manage our government, we need to make evidence-based judgments about that work.

I have just begun to assimilate the results of our year-long FORM study. As you know the review process was driven by GSA employees, who worked closely with Arthur Andersen. At first blush, the study says we benchmark generally very well against the private sector. For instance, GSA's fleet management did better in 6 of 7 benchmarks, and the conclusion we made is to continue to do what we're doing, while looking for opportunities across government to consolidate other fleet programs.

If we do our tasks as well as the private sector, AND we have learned from experience how to manage in a political environment, then it may be best to keep doing our current work. Those are important "ifs", and we are working to resolve them.

**Second ...** if we do keep our work, then we need to do it better, cheaper, faster, easier and smarter -- just as our slogan says. We need to constantly reinvent ourselves. We need to create a culture that flourishes in the midst of change. From the initiation of our reinvention labs and the "Time Out and Review" of construction projects ... to our reforms in federal procurement and Courthouse construction and the FORM review -- all of these initiatives and more have been accomplished in a culture of change ... on a continuum of change.

**Third ...** we need to get to a place where our customers -- the Federal agencies - all clamor for GSA to be their supplier of choice -- their landlord and developer, their buyer and fleet manager, their expert in telecommunications. Contrary to the myth, GSA is a non-mandatory source of supply, and it is up to us to continuously improve our performance to keep customers coming back to us.

Like you, I came to Washington to make government work well. I do not wish to stay here if we cannot -- together -- achieve that result. I believe we have made huge changes in the past couple years. In particular, this committee

and GSA have worked well to bring cost efficient practices to the agency's and government-wide programs. Although more is needed and will be done -- remember, change is constant -- I believe the American people should be proud of the work we're doing in making our government more responsive to their needs.

I like the GSA team. I like what they've accomplished, and I like what we do. I look forward to working with them and members of this Committee as we move forward.

Again, thank you for this opportunity. I'll be happy to entertain any questions you have.

Mr. HORN. You are actually better than you think. The round trip from here to Los Angeles is \$217, so you are doing well.

Mr. BARRAM. Expectations management.

Mr. HORN. Let me start in on a few questions here. Let's deal with personal property. Each year, Federal agencies declare excess or surplus over \$30 billion, based on the original acquisition cost, in personal property, everything from computers to bulldozers. When one agency no longer needs the property, it is declared excess. When no Federal agency needs the property, it is declared surplus to the needs of the Federal Government. It may then be donated to an eligible donee or sold.

Sometimes we donate property that can be used by another Federal agency. We need to examine the operation of the Federal Surplus Property Program to enhance opportunities for cost savings. Now, let me get to a few questions.

One of the main responsibilities under the Federal Property Act, which created GSA, is to administer a utilization and donation program. And let me ask you, What would you characterize as the purpose of this utilization and donation program?

Mr. BARRAM. I'm going to let Marty Wagner answer that, Mr. Chairman; but let me just say this. One of the ways we are going to approach this is to make sure that in everything we do at GSA we need to be oriented toward our customers, so we are going to work with all of the stakeholders in this, all of the other agencies—and there are a number, I noticed, in your opening statement you commented about—DOD and others who dispose of personal property and property in ways that did not sound like you thought was exactly the best.

But we need to work with them to make sure that we employees understand what they are doing and what overall policy we would have. But if I could ask Marty to address that.

Mr. WAGNER. OK. And in relatively simple terms—I am a simple-minded person—I think we try to get it to its highest use within the Federal Government at the minimum cost. If we do not have a good use within the Federal Government to outplace to appropriate State and local governments and also charitable organizations that could have a good use for it, and if those two are not available, to get the best price we can get for it selling it on the opening market.

Mr. HORN. Let me ask you this. As I understand it, we have had various and sundry comments and complaints to this subcommittee because we are concerned about donating the equipment prior to its being screened for reuse by other agencies. According to GAO, there are a number of statutory authorities which exist allowing agencies to donate property prior to reuse. Do these separate statutory authorities hinder the reuse process as administered by GSA?

Mr. WAGNER. I think we would say that that would really take a really close look. This fragmentation of many different property authorities does not, even though many of the causes are worthy, does not necessarily allow us to look across the whole Government and find the highest use.

I would hasten to add that does not necessarily mean we want to funnel every item of property through some great, big system to take a look at every possible object. One of the concerns we have

in the policy office with the way we have handled personal property disposal in this Government is that transactions costs appear to be rather high in many cases, and we think we need to look at that, and there may be good operational things that should be looked at across Government, things that are best handled at a local level.

But, in general, we would certainly agree that an across-the-board look at how we handle property would be a good idea.

Mr. HORN. What is the best way to get at this? Has the administration ever thought of some interagency task force to sort out what ought to be done in the executive branch and who ought to do what?

Mr. WAGNER. In answer to your question, Mr. Chairman, yes. We are, in looking at personal property policies with our new office, are taking an across-the-board look at how the personal property system works. And the way we are going to be doing that, starting basically over the next several months, is mainly work with the agencies, property disposal personnel of the agencies to get their input. Our model of policymaking is much more collaborative than command and control. We are not going to make pronouncements from Mount Olympus; we are going to work with the agencies to develop improved ways of handling the regulation.

Now, that focus believe mainly within existing body of law and regulation. There are discussions about possible legislative initiatives from the administration, and OMB has asked us to take a look at some possibilities, and we will be taking a look at that; but it is much too soon for us to comment beyond that we will look at it.

Mr. HORN. It seems to me that one way to go about it is that task force, and another is for GSA to certify a process of disposal and delegate the authority from GSA when you are satisfied that agency is doing what the law requires. And as I understand it, the law requires that we first ask other Federal agencies if they need this property, and then we would go, I assume, to other governmental agencies.

Mr. WAGNER. Yes.

Mr. HORN. And then what are the other priorities in there? Does the McKinney Act apply at all to the Federal equipment?

Mr. WAGNER. I do not believe the McKinney Act handles personal property at all; that is only real property.

Mr. HORN. OK. So you do not have—do you have any similar priority that binds you to make it available to a particular group or category ahead of other disposals to, say, the States and local government?

Mr. WAGNER. I don't believe so. I have been burned in the past. In general, I would say the answer is no. There will probably be some exceptions. Once it goes out into the surplus system, then you do get various competing recommendations on who should get the property.

Mr. HORN. Yes. I think we need, at this point in the record, GSA's view of who has the authority to do what and what agencies can distribute it on their own. And if you have some concerns in that area, I think we need to know that when we are talking about a reauthorization.

Mr. WAGNER. I think we are developing—the way I would like to answer that is we are developing some concerns. Several agencies have, by legislation, their own property disposal authority, and we think that we should take a long, hard look at that; but we would not be prepared at this time, anyway, to say that new legislation is required, although that is certainly on the table.

Mr. HORN. What I have here—and we will put some of these charts in the record—this is from a GAO report that has been circulated in terms of just some basic charts. But what we would really like to see is GSA update this and work through your role. I do not think any of us want to see one overweening bureaucracy that gets nothing done.

On the other hand, if we want to see a rational process that you have certified and that Congress has agreed, and the fact that a few people have sort of jumped the gun and got an edge in here over the years, I understand. That is the way the place works: We are very fragmented. The executive branch is also fragmented, but not as fragmented, but almost. You are running a close race.

Mr. BARRAM. Mr. Chairman, may I just comment on that? You made an important comment earlier about working with—we said, and you supported, I think, that we need to work with these agencies to develop the right kind of process.

We can certify—and certify is a less onerous kind of word than other kinds of words—but we have got to build, I believe, for this to work well, a sense of trust in this administration in this Government. So if we say that—if we together develop a policy, the agencies have to sign up for it and then carry it out. We cannot be too much of a policeman, I do not think, or we will not be very effective.

Mr. HORN. Well, as I say, my bias is against an overweening, centralized process, but I just want to make sure that the Federal Government does not pass up surplus equipment it could use somewhere and then send a budget request to Congress to buy somewhat similar equipment. That is all I want to avoid. And then, obviously, we should get it out to those governmental agencies at the State, local, and special district level, if they are eligible, and then nonprofits that could be helped by this and not just have things rust. So that is a concern.

I don't know, Mr. Chairman, if you have any thoughts on this or not. OK. Has GSA ever done a cost/benefit analysis of the reutilization process, or is that what you are engaged in right now?

Mr. WAGNER. Not to my knowledge have we done that, and I think that will be an important part of this effort. Mr. Chairman, you mentioned on certifying possible organizations, one key step in all of this is benchmarking systems. We do not have to do it, but if we can have benchmarks so that those who do it can be measured against others who do it, I think we will have major improvement. And working out what those benchmarks are will be a priority through this process. If we cannot measure it, we cannot tell if we are doing well.

Mr. HORN. Sure. Well, I do not want you spending \$10 on a process to get rid of a \$5 hammer. I mean, that is what it really gets down to.

Mr. WAGNER. Yes.

Mr. HORN. And as we have just discussed, you are not the only agency with responsibility for surplus property. And, I take it, you are really just beginning to look at how you coordinate that process where authorities exist with other agencies, or what are you planning to do there?

Mr. WAGNER. Yes. In terms of forming the group, we are in the early days of that. We basically began that process, I would say, about 3 or 4 weeks ago. We have taken some steps in terms of the personal property system.

We are mostly through setting up a temporary rule to raise the level that goes into the cross-government system from \$1,000 acquisition cost to \$5,000 acquisition cost and reduce the time period from 60 to 21 days. We will be proceeding on that fairly quickly. But in terms of the across-the-board review, that we are still early days on. Most of that will be well along this summer.

Mr. HORN. Now, in the coordination or examination of the coordination of the reuse process, are you involving the defense agencies in this review?

Mr. WAGNER. We certainly will invite the defense agencies to participate. They have a great deal to contribute, not only property, but also expertise.

Mr. HORN. So, I gather from this discussion so far, you are concerned about some of the fragmentation in the area?

Mr. WAGNER. Yes, sir.

Mr. HORN. Now, as I understand it, the Defense Reutilization and Marketing Service has over 100 offices selling surplus property. How do you sell your surplus property? Do you have 100 offices, as the Defense Department does?

Mr. WAGNER. If I could ask Mr. Pugliese, because he actually runs the operation that actually does that.

Mr. PUGLIESE. Mr. Chairman, no we don't have over 100 offices. And very simply what we do is we sell it almost entirely through commercial sources; we have a very small staff of folks that continue to do that.

Mr. HORN. So you job it out.

Mr. PUGLIESE. We job it out, as we do in our fleet operation. A large piece of this would be also the resale of vehicles, and that is all done primarily through commercial auction houses. The days of us having employees to do that are long gone. We just do not have those kind of employees anymore, nor do other agencies.

You raise several interesting issues, though, which are that the RMO's now are faced with the prospect of generating revenue. The difficulty in having that prospect placed on them is when you need to generate revenue, there is sometimes a tendency to try to shortcut the process and maybe, in fact, not let it run its full course for the proper utilization.

I notice you have State agencies who will be testifying later. I believe they will probably give you some good—shed some light on how they feel about the whole process.

DOD is a large player. There is no question about it. They control a lot of property. We really will—and back in, I believe, 1972 we did have a working group that looked at this whole process. I believe it is time to do that again. We have effectively done it in the agency on lots of things—aircraft management, fleet manage-

ment—we are forever using—travel management—using inter-agency committees which brings together both the customer and the user. That is the effective way, in my opinion, to try to deal with bringing about what needs to be done, how you deal with the fragmentation.

It also will take into account how you account for educational issues that need to be addressed with property and just overall utilization of assets that have been paid for once by the Government and do not need to be bought a second time.

Mr. HORN. Well, I thank you. I will continue this later on property, unless Mr. Peterson is going to pursue property, but I am going to yield to Mr. Peterson as the first member of the minority to show up this morning, and then to Mr. Kanjorski.

Mr. PETERSON. I apologize. Thank you, Mr. Chairman. I apologize for being late.

Mr. HORN. And, by the way, your statement either can go in the record as read or before the next panel, you can read it.

Mr. PETERSON. Well, whatever.

Mr. HORN. Whatever you would like.

**STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA**

Mr. PETERSON. Part of what I was hoping to be able to do today is get some focus on this bill that I have introduced, and if I could just ask the panel, Are you aware of this bill that I have introduced, H.R. 1882? Have you looked at that?

I have not studied this a whole lot, but it looks to me like we have this process in place, and then all of a sudden Members of Congress started dreaming up ideas of how they could get their little pet project or their group that they want preference put into the law, and some of it might make sense, and some of it, I, frankly, have some questions about.

I introduced this bill, which may be kind of a meat-axe approach, but trying to get some movement on this. I guess I would just like your response, if you have looked at the bill. I see that the Defense Department does not like it, but just what your problems are. I missed some of the discussion here. Apparently, is some study going to take place that you are going to look at this?

[The prepared statement of Hon. Collin Peterson follows:]

**Rep. Collin C. Peterson**

**Statement before the GSA Oversight Hearing**

**Subcommittee on Government Management, Information, and Technology**

**May 10, 1996**

Mr. Chairman, thank you for the opportunity to come before the committee today and discuss the merits of the Federal Surplus Property Reform Act of 1995, H.R. 1882, in the context of this General Services Administration oversight hearing.

From 1918 to the present, many federal laws have been enacted authorizing federal agencies and departments to make obsolete or surplus personal property available for donation for educational and other purposes.

Public Law 94-519, enacted October 17, 1976, was designed to consolidate many distribution systems operated by federal agencies into one state agency, and to restore the effectiveness of the surplus property donation program. In each state, a Surplus Agency is designated by law to receive transfers of federal surplus personal property for distribution within the state on a *fair and equitable* basis.

Until 1986, this was one of the finest examples of federal and state cooperation to meet the needs of local government and certain non-profit local institutions. Over the years, some special

interest groups have successfully lobbied Congress for special priority to federal surplus and excess property.

There are many instances where Congress' actions have fragmented the program and impeded one of the most efficient ways the federal government has to provide assistance to state and local institutions. For example, Congress authorized the distribution of excess Department of Defense property to foreign governments; granting them priority over other federal agencies that may have need for the property. Congress also made available to 8A minority Small Business Administration contractors federal surplus property before states were given the opportunity.

H.R. 1882 eliminates the priority status of these programs and returns the surplus property law to its original intent, a single state agency. This bill, very simply, removes the priority without denying participation in the state agency program. This legislation will save money by eliminating the need for a duplicate screening and distribution process.

This bill will *increase* the property available to eligible recipients by focusing on domestic and local needs first before it is given to special interests. However, relief for humanitarian assistance is not forgotten. Supplies may be transferred for humanitarian relief and to foreign governments or international organizations at the request of the President.

The National Sheriffs' Association has expressed concerns for elimination of the Section 1208 program. While repeal of Section 1208 will have no effect on the recipients ability to receive property through the GSA program, I understand the urgent need for supplies in counter drug

operations. My office continues to work with the National Sheriffs' Association to resolve the differences.

This legislation has the support of several groups. The National Association of State Agencies for Surplus Property will be testifying later today. I welcome everyone's input into this important issue.

Again, Mr. Chairman, thank you for this opportunity.

Mr. BARRAM. Marty Wagner talked about the interagency study that we are leading on the whole subject to come up with a consensus on the way to handle this. So we look at this—we feel like we are giving top priority in reviewing all of this.

Marty, can you give the Congressman a sense of when we will know more?

Mr. WAGNER. Well, in terms of overall working through the property community, we will have a pretty good feel this summer where they wish to go; but on terms of the bill itself, we have that from OMB to review. We understand the concerns raised by the Defense Department.

I would say that over the next several weeks we can develop a pretty clear view within GSA of what we believe; but as I am sure you recognize, the executive branch has to come together on an issue like that, and the process across the Government may take a little longer, but we would work with OMB as quickly as we could to come up with a unified position. And I would hope a couple of months would be appropriate, but that process is not always within our control.

Mr. HORN. Has OMB coordinated the review of this bill with GSA as was apparently requested?

Mr. WAGNER. OMB—I'm not familiar with exactly how OMB has coordinated the review of this bill. We did have an opportunity to comment to OMB, but the specifics of how it went, who it went to, if we could submit something for the record on that.

Mr. PETERSON. I think there was a request that you work together. Did that happen?

Mr. WAGNER. There were exchanges with OMB. I don't know that we have actually had a session with the Defense Department on the topic. I do not believe so. We have not yet had an opportunity to meet with the Defense Department on the issue.

Mr. PETERSON. Are these State surplus property agencies involved in this situation?

Mr. WAGNER. Not in any of the discussions today, no.

Mr. PETERSON. Are you going to stick around and listen to what they have to say, or are you taking off after your—

Mr. WAGNER. I can stay here to listen to the State.

Mr. PETERSON. They have got some, I think, valid concerns, and just—I don't know. Maybe I don't know enough about this, but it seems to me, you know, I don't know why we are giving 8A minority small business contractors preference over State governments or giving foreign governments preference over State governments. I mean, I don't know how in the world that ever happened. Maybe I'm wrong, but apparently what it looks like what has happened here is we have added all these things, and they get a first shot at this before the State agencies that were set up to coordinate all this get a chance.

That is what I am trying to get at. Maybe the Defense Department, maybe there is some reason why they ought to have preference, but it is hard for me to understand why a private business would have preference over a governmental agency or whether a foreign government should have preference over our own State and local government.

Mr. WAGNER. You raise excellent points, and we will address—

Mr. PETERSON. And why did it take us to get to this point that we—I guess, some of these things have been in there quite a while. It is curious to me why you folks did not look at it earlier.

Mr. BARRAM. Mr. Peterson, may I ask, is this question, as far as you know, Defense mainly, or is it all agencies?

Mr. PETERSON. No, it is not Defense. Maybe I shouldn't have put that in the bill, because the whole focus then got to be Defense. But that is not really what my problem is; it is all these—I mean, maybe there is a problem there, but I was more concerned about us giving preferences to things that just do not make sense to me or to most people that look at this as to why we ought to give some private business person a preference over governmental agencies when we are donating property or selling it at a substantial amount below its market price.

And that is what I am trying to get at with this. So, again, I think that it would be good if you would stick around and listen to these State folks because I think they have some valid concerns, and they expressed to me extreme frustration in getting anybody to listen to them, for whatever reason. So I hope, if nothing else, we can get some dialog going here to get everybody on the same wavelength.

Mr. BARRAM. Mr. Peterson, let me say two things. One, we will certainly have some people who stay around and listen to the States, and it is not part of our core mission to ever be thought of as somebody who will not listen to a State agency. So we shall not continue that.

Mr. PETERSON. Thank you. Mr. Chairman, if you could just include my statement in the record.

Mr. CLINGER [presiding]. It will be included in full in the record.

Mr. PETERSON. Thank you.

Mr. CLINGER. Thank you, Mr. Peterson.

Let me turn, if I may, to some questions regarding fleet management, a major responsibility for the GSA. You operate over 145,000 vehicles, I understand, and have other departments that have over 400,000 vehicles, the Postal Service, 205,000. We have got a lot of vehicles in the Federal Government. And I guess the question really is whether GSA can maintain a very high level of service and at the same time provide effective oversight, because that is a very broad charge upon you. I think, as Mr. Barram said, GSA must focus on its core mission. And I think you feel very strongly, and certainly you are dedicated to that, and that you should privatize functions that do not contribute to that core mission, if it is at all possible.

For those vehicles which you do not run but we have some oversight responsibility, do you have any responsibility for the costs of fleets that are run by other agencies?

Mr. BARRAM. Let me make a comment, and then Mr. Pugliese can comment on it extensively. We have both those responsibilities. You are right. We are confident that 25 percent of the 600,000 that we manage, we do a very good job at, and we will compete for the next 450,000 with confidence that we can do well. We also have a responsibility and oversight, as you say, so we are at the same time making that clear and also marketing to people how well we do.

Frank can give you the detailed answer to your question and much more, if you would like.

Mr. PETERSON. Mr. Clinger, let me start with a couple of comments. I think you raise an excellent point, one that has always seemed to mystify me all the years I have been in Washington. The entire fleet is about 580,000 vehicles. It sounds like an awful lot of cars to me. We have about 148,000 of those. In the process of managing that 148,000, we do have some oversight responsibilities which will now be handled by the policy area to basically set overarching policy for the rest of the Government fleet to basically identify what they should be doing in terms of alternative-fuel vehicles, what they should be doing in running a fleet.

In fact, GAO, on several occasions when they have studied other fleets, has used the GSA fleet as an example of what should be done in cost containment and what should be done in actually managing a fleet.

Another interesting piece of our fleet business is the fact that we really do not do it with Government employees. We like to talk about privatization; and, in fact, when you look at our fleet, I like to tell people in the private sector, "Do not feel threatened by us; understand the challenges for you to make some more money with us." The bulk, probably 90 percent of the dollars we spend in that fleet program, go out to the commercial sector now.

What does that mean? We do not have motor pools; we used to a long time ago. We don't have mechanics maintaining cars; we used to a long time ago. We buy all of our fuel commercially through arrangements with the Defense Supply Fuel Center. We buy our cars directly from the OEM's, so we do not pay dealer markup; we pay directly what the OEM charges. We buy only American products. We have advantages, yes, and in my opinion, we should use those advantages for the greater overall good, which is to put a fleet out there at the cheapest possible cost to the Government.

In past years when we have run either A-76 studies or Cobra studies and actually have put out fleets, substantial sized fleets to bid, we have had no commercial bidders. I was just in Chicago last week where I spoke to 350 fleet managers, all of my competitors sitting on the dais with me. And, in fact, when we have gone through the FORM process, what we have found out is, sure, folks would like to cherry pick our business.

We have parts of our business which are very appealing and very attractive, our sedan business, but the fact of the matter is our fleet is not like a fleet of Hertz. Our fleet is primarily 50 percent light trucks, so it is not a Hertz or an Avis; it is a specialized fleet. Our fleet has probably got 12,000 alternative-fuel vehicles in it right now. You will be hard pressed to find anyone who has got any serious number of alternative-fuel vehicles on the street right now, even energy companies. So that is kind of the approach we take when we look at our fleet.

Mr. CLINGER. We are going to have to recess briefly here because we do have a vote in progress, and I think Mr. Horn will be back in a moment, and he will carry on. Please excuse me so I can go vote.

[Recess.]

Mr. HORN. The committee will resume, I will resume, and I will carry on regarding the property questions that I was asking before I yielded.

Let me complete the series I wanted on the surplus property. Now, I'm curious, does GSA recoup the cost of its disposal process through retaining sales proceeds, or are the costs of dealing with that surplus property paid from appropriated funds? How do you work it?

Mr. PUGLIESE. We have appropriated funding, and we recoup our costs in the process.

Mr. HORN. When you go before the Appropriations Committee, what do they think about it? Do they want you to just, hey, you are going to get part of what you sell, so why should we appropriate any?

Mr. PUGLIESE. I think there are probably opportunities and mechanisms there if we wanted to move that way, we probably could. It is one of the few remaining things in the Federal supply that basically is not self-sustaining from that standpoint.

Mr. HORN. Well, could it be self-sustaining?

Mr. PUGLIESE. Yes, I think it could be. I think maybe the more important question might be, Would you still feel comfortable that—accomplishing the greater good, which is a fair and equitable distribution of the property, or are you concerned about someone so concerned about revenue generation that they lose sight of the objective?

Mr. HORN. Well, I notice in California, your counterpart, the General Services Administration of California, prides itself on never costing the taxpayers a dime; everything is charged back to the agencies; it is their budget in the case of most of the things they do. How they handle surplus property, I will check, but I am just not up on that right now.

But it seems to me that that is one area where you must have enough volume that you could make money off it and pay all your costs of implementation. So I think we will have that under advisement. We would welcome your further thoughts on it, and I just wonder, do you know if the Defense Reutilization and Marketing Service have a different approach to it? Do they simply pay their costs out of what they are selling or disposing?

Mr. PUGLIESE. My understanding is they are having a little difficulty covering their costs.

Mr. HORN. OK. Well, we will ask staff to do both and see what the difference is in terms of the incentives provided. Anyhow, looking at total donations, what percent goes through to State agencies? Do you sort of have a ballpark figure? File it for the record, if you—

Mr. PUGLIESE. I will have to.

Mr. HORN. And I am curious to what degree that has changed over time. As you might recall, we had a legislative proposal before us in either the last Congress or last year that wanted to give the benefits of GSA purchasing to State agencies. That was, as you can imagine, in the smaller States fought very vigorously by individuals who sell tractors, trucks, et cetera, and you can understand because the State government might well be one of the largest customers.

Mr. BARRAM. Mr. Chairman, that would include things like donations to schools, law enforcement agencies—

Mr. HORN. Right. If you do separate out by the State agency, unless they are simply a flow through for you into, say, it is a State department of education and they then give it away to the schools, I would just be curious sort of what does your customer look like by category. I do not want to make a big thing out of it, but if somebody, one of your bright young analysts can pull that together in a couple of hours, but if it is more than that, give me a ballpark figure. I don't want to waste time.

Mr. BARRAM. Unfortunately, Mr. Chairman, we have a lot of bright, old analysts now because we have not been able to add a lot of new, young people, so I might have to use one of them.

Mr. HORN. I went through 3 downsizings in my university, and while it costs you a lot on the payouts and everything, you get all of your money back in 3 years because you are bringing in younger people, let us face it. We all griped. Our trustees griped and said we would never do it again, but each time we did it.

Mr. BARRAM. We have to be able to do that and soon. I agree with you.

Mr. HORN. The most recent report to Congress regarding the utilization and donation of Federal personal property indicates that GSA obtains an average of approximately 5 percent of the original acquisition cost when it sells property. Now, the Defense Reutilization and Marketing Service, I am told, gets 1.5 percent, less than one-third that of GSA. Do you have any feeling why Defense Reutilization and Marketing does so poorly compared to you, or have you ever thought about it?

Mr. PUGLIESE. I think it is the specific differences in the types of equipment. We generally have stuff that lend themselves for easier utilization and sale and more quickly for utilization and sale, whereas, in fact, DOD could have other items which are high-acquisition costs, very specific in nature to DOD, and not very high return or reuse possibilities once you get outside of heavy equipment, which is obviously a very, very hot item in every utilization program.

Mr. HORN. Are there items that they put up for surplus that are similar to items you are putting up for surplus?

Mr. PUGLIESE. Yes.

Mr. HORN. And is there any problem with that?

Mr. PUGLIESE. I think you are always going to have some problems, Mr. Chairman, when you have what may appear to be competing interests and when you realize that they are the largest contributor to the property program and that they have the most available.

Mr. HORN. The House Armed Services Committee, now National Security Committee, has estimated that Defense Reutilization and Marketing Service could save over \$100 million by contracting out certain functions. Would GSA have any knowledge of whether that estimate makes any sense or not?

Mr. PUGLIESE. In the worst of times, the DOD coffers are usually still pretty full. DOD has, in fact, though, been looking to—and I know because they are doing it with one of our best commercial contractors, which is ADT Auction Houses—DOD has been looking

more to that because they have realized they need to move the property and they need to try to increase their return and they need to have someone who can do that. So they are looking to do that stuff.

Mr. HORN. Now, as I understand it, both the General Services Administration and the Defense Reutilization and Marketing Service have computer-based systems for screening excess Federal property. So an agency must check both systems to see if something is available. Is this duplication sensible from the standpoint of either resources or efficiency?

Mr. PUGLIESE. No, and I think our system is better.

Mr. HORN. Yes.

Mr. PUGLIESE. I will give you for the record the differences between our systems, and it is duplication, yes.

Mr. HORN. Good, because I was going to ask you how much did the Defense Reutilization and Marketing Service cost to develop it all? We are going to be asking Defense that, but does GSA have any knowledge of that at all?

Mr. PUGLIESE. I have no idea what it costs DOD, but I am certain we could tell you what ours has cost and what the status of it is.

Mr. HORN. The report to Congress does not include the Defense Reutilization and Marketing Service, and we were curious why it did not include them, and shouldn't there be some place where Congress and the President and OMB can get a feel for what is the extent of surplus property out there that the Government disposes of every year.

Mr. PUGLIESE. You are correct. It is not in that one spot, and there should be some one spot where you can focus on the amount of property.

Mr. HORN. I will tell you a good place to try it, and I did this with cross-cutting civil rights issues around 25 years ago when I was vice-chairman of the Commission, and Weinberger and Schultz said, "Great." We will add an appendix to the budget; and that pulled all that stuff together across the Federal Government. And that is what we ought to do, really, in OMB, and the committee might write the new director and suggest that, to get a cross-cutting look at surplus property because it is out there all over the place.

Mr. PUGLIESE. Yes.

Mr. HORN. And I guess you cannot make an estimate if you do not know completely what they are doing.

Mr. PUGLIESE. We, in fact, have tried in the past to try to identify what was out there from an inventory standpoint, and it is pretty difficult to find that out from DOD.

Mr. HORN. Well, as I say, what we are going to be exploring during this reauthorization is. Whether duplication sensible across the Government. If it is, fine; but we would like your input on it. Obviously, we will ask for the administration's input on it, which they will pool all the agencies. You will probably be outnumbered, given human nature.

Anyhow, I think we need this information; and between the General Accounting Office, OMB, and you, maybe we can get it so we

get a picture of the surplus property across the Federal Government.

Now, I will yield to Mr. Kanjorski, who was the next member of the minority to show up this morning, and please proceed.

Mr. KANJORSKI. Thank you very much, Mr. Chairman. Mr. Chairman, first, may I extend an invitation to you and the committee to spend a day in northeastern Pennsylvania to see how surplus and excess property of the Government can be utilized in a very efficient and effective way.

Since I came to Congress 11 years ago, I came out of the municipal government field, and we had experimented in several of the municipal governments that I had worked with in the use of Federal surplus property, and what we discovered is generally we did not know what we were getting, we did not know the quality it was in, and we did not know what would have to be expended for it or what maintenance would have to be undergone.

And, generally, the experience of local governments in the mid-seventies was the fact that they may end up spending \$4,000 or \$5,000 or \$10,000 getting a piece of surplus equipment of some sort from the Federal Government and end up not being able to afford to repair it, maintain it, or use it. And as a result, the surplus property of the Federal Government and the excess property became the domain of highly specialized groups.

Now, we have had the State surplus property program, but unfortunately, although the property can flow through the State, unless they can send it out to their customer and get it out in a readily usable form and the customer has methodologies of maintaining it, it does not seem to work. So that over the years I probably have gone to more military installations and surplus property installations in this country than any other Member of Congress.

I recall one afternoon outside of Stuttgart, Germany where I walked upon a cache of excess construction equipment, that as far as the eye could see there were parked shining, brand-new backhoes, bulldozers, pans, and most construction equipment that most American cities would salivate over. And it was part of, I think, a \$3 or \$4 billion inventory to fight the third world war, brandnew equipment, never used.

I followed that, and that was excessed by sale in Germany. And, to the best of my knowledge, it probably was lucky to bring 10 cents on the dollar. We, having had those experiences, we have gone through various experiments.

We could sit here all afternoon and have all of the experts from GSA and from the Defense Department come up here and testify to us, and we will have very nice, typewritten reports to make, but they will not have any value in the field. We have to get out into the field to see the problem.

I think we are going to hear from State surplus property today, and when you hear their frustration and the terrible time they have. I will give you one example. You can get into the Defense Inventory System.

Now, if you are very smart and you know the nomenclature of all of the serial numbers of the Defense Department, you can find out what they have out there. Other than that, you are looking at 10 to 20 or 30 digits that are, to the average American, absolutely

meaningless. So you do not know whether you are about to buy a B-2 bomber or if you are going to get a section of a carbine rifle. You have to know the mechanism.

And the funniest thing is, the Defense Department maintains a different serialization than the private commercial sector, so you may actually have a piece of equipment that you could use or substitute in a part that you need, but you cannot identify it because you do not know the difference of military inventory numbers compared to civilian inventory numbers. And for some reason, nobody has thought of the good idea to mix and match those two so they could be readily available.

But I would like you to go with me some afternoon and sit down at a computer and just find out how much equipment you can find and material around this country that you cannot get there, and the old saying, "You can't get there from here." That is the state of all surplus excess property. It has been that way. Mr. Peterson put in a bill to do away with preferences.

The reason those preferences are in the law is the result of years of frustration. When Members of Congress have tried to accomplish something, they have run into a situation that is impenetrable, so as a result the easiest thing to do would be either to put an exception in a law, a special exception to cause their interest to be met but not to solve the problem.

If this committee, if this Congress really wants to solve the problem, it has to, one, get out in the field; two, it has to not talk to only the head of the GSA and the Defense Department, but the people that are really in the command of it. It has to have its ears open to the State surplus property because they probably are more knowledgeable and more frustrated than any group in America that I know of.

And then, finally, we have to work with the ultimately users, the local Governments, State governments, institutions, whether they be educational institutions or others, and establish mechanisms by which they can literally acquire some of this property, maintain it, repair it, and use it, and know what they are able to get.

That is not possible now under some of the laws. For instance, you cannot use some Federal moneys that cities get to acquire, transport, repair, maintain, or use surplus property they may acquire. In other instances, and, of course, I am more interested in construction equipment and readily usable equipment by municipalities and other areas of Government, where we have surplus property and excess property such as buildings and land and scientific equipment and all kinds of equipment.

We problem is if you do not have somebody with an interest to find the need, to place it correctly, and then channel it correctly, and then support the ultimately users, all you will have is a very extensive report that makes everybody feel good.

If I were going to suggest something, we ought to start with taking this room, clearing the chairs, putting us all around the table, and putting about 30 or 40 people in here that have personal experience on how to use this and really talk it out and have a cross-discussion of what happened, not just relations. When you are looking at numbers, you have absolutely no idea how extensive the loss to America is of unused, surplus, or excess equipment.

I can give you some numbers. It runs around \$12 billion a year, governmentwide. The realization on sales—

Mrs. MALONEY. Will the gentleman yield for a question?

Mr. KANJORSKI. Yes.

Mrs. MALONEY. I want to compliment you on your comments, and I would like to recommend to the chairman maybe we should take a field trip to your district. It is one thing to talk about policy; it is another to see how it really is implemented. But why is there such a loss? You mentioned the tremendous loss, but why?

Mr. KANJORSKI. Because it is a specialty area. First of all, this equipment is located in peculiar places around the country. For instance, you may get a bulldozer, and they will advertise a bulldozer and surplus property for sale for qualified parties, municipalities.

Well, they advertise it and you have 50 States in the Union now that get one bulldozer, and they have got to send a mechanic out there to see what shape it is in because the categorizations really are not very good. You may have a bulldozer that is almost in perfect shape, and it will be classified as junk. So unless you go and look at it, you do not know what you are getting.

But now you have 50 States that have to decide to send their directors down or their searchers down to that site and only one bulldozer. Forty-nine walk away pretty frustrated. You do not have to do that more than four or five times, and all of a sudden people stop going. So it has become a specialty field. There are actually people that are making huge fortunes and profits because of the frustration. They then move it to the stream and put it out for sale.

I noticed one of the suggestions today is to move the time down from 60 days to 21 days. I think I am going to leave Congress to join the junk business because there is a fortune to be made. There is going to be a massive amount of equipment pushing out the door.

In the defense side of the industry, they have a storage problem. They may get up in a period of 1 month \$30 or \$40 million worth of property, and it is the responsibility of the commander of that base to get that property off that base. Where it goes or for what purpose or how it is reutilized is of no significance. There is no objective benefit to him to see if it is well used.

We think our number is about 3 years ago that the realization from all surplus and excess property in the U.S. Government was less than 4 cents on the dollar. And, on the other hand, we have taken property into my district, surplus about 150, 200 pieces and also excess equipment. I do not know what the real evaluation would be, but, say, in the neighborhood of \$10, \$15 million. We have a nonprofit organization that has 110 municipalities that are members. It serves as the heavy equipment department for these 110 municipalities.

When the recent snow storms hit Pennsylvania, it was the equipment that was gained from the Federal Government from the Defense Department that kept Interstate 80, 81, and the Pennsylvania Turnpike open because they were the only pieces of equipment that have Oshkosh material, which is a \$300,000 or \$400,000 piece of equipment, a highly specialized piece of equipment that normally States or municipalities would not have.

So knowing what to get, how to utilize it, having it in a common inventory and available at a much lower price to municipalities is a tremendous savings. Every year in my congressional district the municipalities, and including the State of Pennsylvania and the U.S. Government, rents this equipment, and we save those parties well in excess of \$5 to \$6 million every year. It is a self-sustaining operation, but it is very difficult. Mine was first started in 1988, 1989. We opened up a second one in western Pennsylvania. We have had the request, I think, to have at least 15 or 20 across the United States, but, to date, I do not think we have had any luck in opening up any others.

And it is simply because it is so absolutely frustrating to acquire the amount and the diversity of equipment you need.

So I think if we could take a short look at this, at how it is done and get around a table and hear everybody's success stories and failure stories and their critiques, I think we could go a long way in moving this equipment through.

Mr. HORN. I think the gentleman makes an excellent point. You obviously have a rich experience in this area, and we will do what you have suggested here, to visit a number of the relevant portions of both this surplus system and the defense surplus system. I am curious whether videotaping some of this surplus equipment down to close up on the engine and all of the rest and putting it on the Internet would be of some saving to those that are prospective utilizers of it. Has that been thought of by GSA?

Mr. BARRAM. Let me comment on that, if I can. We are listening very carefully. As Marty Wagner talked about earlier, we have a task force in our agency that is going to look at this. My businessman instincts make me a little nervous here, that I do not want the Government to spend a lot of money certifying whether a bulldozer is really good or really bad. Maybe we need to do something, but I would not want us to go a little bit half-cocked here. So we need to understand better the examples that you have described and the experience that you have had and get a good balanced approach to it.

We are using—I had mentioned in my opening statement that we are going to be using the Internet even more than we are today all through GSA because I believe if you use it to play a game on one day, you will begin to understand how it works, and then you will begin to use it for research. And then you go into GSA Advantage, and you say, "Gee, I can buy something quickly this way. Well, maybe if I downloaded this picture of a bulldozer or some other device or piece of equipment, I can make a better judgment about it."

And then you do that, and you say, "You know, what I really would like is the telephone number of a mechanic near there, and here it is," and the next thing you do is you get the mechanic to be—this is the kind of thing that happens when you do it this way.

I do not want us to do an old-fashioned response to a legitimate concern; we need to do a smart, modern one; and we will work to get there.

Mr. PUGLIESE. I would like to comment on a couple of things. You make some excellent points, Mr. Kanjorski, and you have identified some real problems with the process. But there are some

things out there—and I will pick up on a couple of things that Dave just said. You can use the Internet for lots of good things.

I just sent him something the other day where we were playing around, and we had a programmer who played around on his own time on a weekend and basically put an auction house up. And it was a picture of an item with a narrative description and a condition. If you go to places like ADT, which is a very well-known auction house, they have fairly sophisticated systems, off-the-shelf-type stuff you could use which would sort of accomplish what you have identified, which is, Here it is, here is its condition; here is the known mechanical difficulties with it.

And, in fact, logically, we could do what Dave just suggested. Our fleet system runs on the basis of when you have one of our fleet cars and you break down somewhere, you call, like, an 800 number, and they say, "Gee, there is Kanjorski's Garage on Seventh and D. Go there to get the car repaired." We could probably legitimately and logically tie that process together. But it is there, and I think you could do some good things with it.

Mr. KANJORSKI. Maybe I could just add that one of the things that I have observed is the area where surplus and excess property are probably most valuable are not in the metropolitan cities, which have a high demand for quality equipment because they have a constant need to do it; it is the small community, the disadvantaged community or the small county that needs this equipment.

And yet when you look at it, there are not the experts, the mechanics, the people that can maintain and repair this equipment, necessarily located in these areas; so that we can push all of the equipment out there, but if it cannot be fixed, repaired, and maintained, in those local areas, it will not get marketed right.

I have had experiences where pieces of equipment were advertised on the State system, maybe a bulldozer, \$5,000, and then you send a mechanic out, and he says, "Oh, gee, for about \$10,000 we could put it in working shape, and it would be the equivalent of a \$100,000 bulldozer."

Your problem is if you pick that up and you bring it back, you do not have the expertise within a 75-mile radius of the small communities and the small counties to fix it. So now you have got a problem of transporting it to a large city to get it fixed and the parts and all the problems.

The experiment that we had gone through with the nonprofit corporation was to fill that gap. There was no problem of the Federal Government identifying equipment that was surplus or excess. There is no failure in the State systems to be able to acquire this. Their basic problem is, to their customer, the ultimately end, the small municipality, the small government, who would ultimately be the beneficiary and the user of this property, they do not have the organized structure to handle that, and yet they are the biggest need. They are the small community in America that really needs this equipment.

On the other hand, they do not need a bulldozer that they only need it for a year. So we found that that optimum use, if you commonly inventoried in a lending-library concept as we have, not one municipality would have a bulldozer for 1 or 2 weeks a year; we

could have 26 municipalities getting the use of one bulldozer 2 weeks a year, and we would serve the need of 26 communities. That would create an optimum use of equipment, would afford the opportunity to maintain, repair, and fix, and we could do that in house rather than having to send it out to the equipment centers of the United States to get this stuff. It is very expensive to repair.

But we have got to find, it seems to me, a mechanism to identify who the real need is out there. Gene Taylor represents Mississippi, and there are counties in Mississippi that do not even own a bulldozer or a backhoe, and they would die for one. But to grab one surplus and send it to Mississippi, if you go back 3 years later, in some of these counties, that piece of equipment will be rusting because it was not maintained or repaired, not because they did not want to or did not have a need for it; there just is not the expertise of parts and people there.

So it seems to me that we have to send the infrastructure with the equipment to make sure it is properly utilized. That takes a greater process than just finding a nice way of spinning equipment off. These States, they can spin equipment off. Believe you me, if you turn them lose, they will pick the Federal inventory clean. The problem is once they get it, it may not end up in the most useful hands or needful hands in the country because the people, the municipalities and the small counties that really need it do not have the ability to repair, maintain, operate, and keep it up in shape, deliver.

One of our biggest problems when we set up our equipment was you get a call in Utah—what is the military base out there that has all the equipment on it? Tarella, UT? You get a call you have got a tremendous piece of equipment out there. Well, now, you have got a problem: How do you bring it from Utah to Pennsylvania? Not easy. If you try and hire a commercial mover, you had better be sure the equipment is in awfully good shape and worth an awful lot of money to make that haul and pay for the thousands of dollars necessary.

So we had to actually get transport equipment to be able to go out and bring it in. You need a diversity of transfer equipment. You need expertise in permitting across State lines. You have got all kinds of technical problems that the breakdown occurs not from the Federal Government, not from the State government, but down at the municipal user level. We have never taken the time to make the investment or the analysis to really get it done.

And then I would join my friend, Mr. Peterson. It is simple. What priorities we have given the Federal Government, the Federal contractors. In this great field I walked through outside of Stuttgart, Germany, as I said, as far as the eye could see there were brandnew bulldozers, brandnew backhoes, thousands of them, thousands of them. They were all sold to European contractors, brandnew equipment, because the decision was made nobody wanted to take the responsibility to transport them back to the United States.

Mr. HORN. I thank the gentleman and now yield to the ranking minority member, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman. First of all, I'd like to thank you really for organizing this very substantive hearing. It

is tremendously important, and you have done a lot of great work on how we can run Government better and save taxpayers dollars and really make Government do what it is supposed to do, serve the people.

I really want to congratulate my friend, Mr. Peterson, on your bill. And I am going on as a cosponsor. I think it is an excellent bill, and I would like to ask all of the members of the panel to respond to it, and I would like to really congratulate my inspiration over there, Mr. Kanjorski. You always have such good ideas and insights on everything, and I think what you have done for your district, I would like to do in my district.

Mr. KANJORSKI. Would you yield? I just have to say Mr. Peterson's bill does like the experiment that I established.

Mrs. MALONEY. Oh, it does? Would Mr. Peterson accept a friendly amendment? I like Mr. Peterson's bill with the exception of the rider which continues your program, which seems very beneficial to communities and local governments. And as I was just saying to the chairman, I think, either as a committee meeting or even just for the individual members, if you could set up, you know, like, a day we could go out there at our own expense and just go around and see what you have done.

You know, it is one thing to hear about it, but to really figure out how to make that happen in our own districts, I think you would be doing a really tremendous benefit to the localities in this country and the Members of Congress who want to help their localities with it.

So I would like to ask the members of the panel if anyone who would like to comment, I would like to ask and have on record, first, your comments on Mr. Peterson's centralization bill, and, second, your comments on really the issue that Mr. Kanjorski just raised, the fact that a lot of the surplus property is overseas, it is very valuable, and it is not getting back to our hard-strapped cities.

I know my city of New York has a deficit. The Federal Government has a huge deficit. We are all having tremendous problems, our local governments, and if there was material or machinery that could clean the streets or help us with our local problems, it should come to America before being shipped off to some foreign country.

So those two questions: You know, No. 1, your response, whether you support or do not support Mr. Peterson's bill, why and why not; and, second, what can we do to address the problem Mr. Kanjorski talked about of getting the surplus property back to America first before it is given to a foreign country?

Mr. BARRAM. Let me start on that. We talked earlier about having—we have a committee, a task force that has been established. We are not going to behave and let that be a way to not take action. We actually are working very hard at this.

I want us to find a balance between making sure that we accomplish what the chairman and other members have mentioned in terms of getting these properties that are there, getting revenue for the Federal Government, and yet not spending a ridiculous amount of money, not spending \$10 to get to, say, \$5.

We would—I have—at this time in my life, I think that when people are as passionate and as interested as Mr. Kanjorski is in something and knows as much and has been involved in it, that we

should go right there and see, go to Pennsylvania. And it is beautiful in the summer; we will go there then, whatever the case, because we need to be in this task force—at GSA and in its inter-agency task force, we need to understand exactly what you are talking about so we can make the most efficient system.

There are no sound bites in the middle, and I have given you what I think is a very kind of middle answer. I do not want to see—while I am here, I do not want to see this agency run off and do something that is extraordinarily expensive to put together a system that gets us to about 1988. Now, in 1996 and 1997, we have technology, the Internet, specifically right now, that can help us do things, that are more powerful tools. We need to think like that, so that its rapid change, information expensively, those kind of things.

There are some very tough issues that Mr. Kanjorski raised, I think. For example, if this is a universally available system, then who is going to get the one bulldozer? Are the States going to bid it up at auction? Frank talked about it. We have a new system we are playing around with now that we can do options over the Internet.

So there's a lot of issues that we have to deal with, but I think the way to tackle it is to go right—Marty said a minute ago that he would come see you and make sure that we understand completely all of the details and see the example.

Mrs. MALONEY. And the second point that he raised, the fact that very valuable supplies overseas do not get back home; what is the response to that, and how should that be handled? And I just want to ask the chairman, if I could, there does not seem to be anyone on the panel from DOD, yet they seem to have a tremendous role in this, according to Mr. Kanjorski.

Mr. HORN. We are going to examine that. Before you came in, we had a series of extensive questions comparing both operations. And we want to take a look at it, we want to have GAO look at it, and then we will have further dealings with both agencies. They are separately authorized, not by this committee, but by, I assume, originally the Armed Services Committee; and we are trying to pull all that together to see where do you get the best deal for the American Government.

Now, on your recent comment there, you can levy a fee, then, on the surplus property and put a particular number on it, or what? Or do you have to simply turn it over without having any charge?

Mr. PUGLIESE. There is no fee right now, no.

Mr. HORN. Well, but could you do it? In other words, does the law say you cannot do it? That is the way I look at it.

Mr. PUGLIESE. Does the act prohibit us now?

Mr. BARRAM. While he is checking on that, in 1995, the States picked up about \$40 million overseas.

Mr. KANJORSKI. OK. Let me say, on a cost, what has happened is these State systems are not very popular with Governors that come in and out because their terms are so short, but you need institutional memory. So somebody bright along the way decided that the way to have a self-sustaining State operation would be to charge municipalities and ultimate users some percentage of the Government's value if they attain this so that it becomes self-sus-

taining. The only problem is that the communities and the areas that need it the most get the least because they cannot afford it, and you get cherry-picking that occurs, so it really is not a very balanced system.

This is not a system that supply and demand works in very well, unless you do not care where the equipment goes to or who gets the benefit from it.

Mrs. MALONEY. Well, I do not think I got my—I did not get my answer to my question about the foreign surplus, and I asked why are they—if Mr. Kanjorski is correct, he alleged that it is not getting back to America. How come it is not getting back to America? That is my question.

Mr. BARRAM. Well, some is. In 1995, \$40 million came back to the States, but DOD is the biggest owner of this excess/surplus property, and they have to make a business decision.

Mrs. MALONEY. OK. I would like to know who—and I apologize for being late; we always have five meetings at one time in this place, but who is recommending that we go to 21-day cycle as opposed to 60-day? Mr. Kanjorski mentioned that. Who is recommending that and why?

Mr. WAGNER. That is within Government. When we screened within Government, we decided that through a process working, I believe, with agencies, that to streamline it—this is the within-the-Federal-Government step; it is not the step from the Federal Government out to the potential recipients of the—

Mrs. MALONEY. OK. So how long is the time to the potential recipients?

Mr. PUGLIESE. Here is the difficulty you are dealing with on that situation. What you are looking at now is 21 days, 21 days more, and potentially 90 days longer. One of the biggest complaints you will find from anybody who has ever had to deal with this program is it takes too long for me to deal with the property.

And, unfortunately, what happens is if you talk about only a specific piece of property like a piece of heavy equipment, that has a whole different need and a whole different audience than if you were talking about furniture. What you will find is the circumstances are such that you probably need to shorten that time-frame.

For instance, if we had a Government building where they were moving to new space and needed to get rid of furniture quickly, you cannot go through a long process to try to deal with that, so for that reason GSA and DOD have been working together to look at should we shrink it down to 21 days and effectively try to move it out more quickly.

Mrs. MALONEY. OK. What I would like—and I do not want it now because the chairman has other people to speak—what I would like is to request from the chairman if my staff could work with your staff with the rest of my questions and maybe—

Mr. HORN. That is always the rule—

Mrs. MALONEY [continuing]. And send them out in writing.

Mr. HORN [continuing]. If any Member has questions that they have not had a chance to ask; and we do have to move on to some other areas. The staff are certainly welcome. We will coordinate it. We will put it in the record at this point.

Mrs. MALONEY. OK. And, very briefly, I would like answered in writing the timeframe now that you are using for moving this property and various categories, if there is a Federal standard; and, second, what you are proposing, so I could look at that.

And, third, I would like a report on what happened last year with surplus property. How much came back to the Government? How much went to foreign countries? How much did we gain? How much did we lose? How much were our operating costs? I would like to sort of get an overview and an understanding of that, and if you have it, whoever in your offices works on the type of program that Mr. Kanjorski described, I would love to sort of see a written example of it so that I could try to follow up on it.

Mr. HORN. Well, on those questions, we will coordinate all of them and get them to GSA so we do not have 10 people asking the same question in a different way. And I am conscious of your time as well as our time, so let us get all of the questions in the next week, we will send them down to the Administrator, and he can parse them out as he sees fit.

Let me move to an area that we have not been pursuing here, and that is fleet-management. We will probably hold a more extensive hearing on that in the next few months, but what I am curious is, because Mr. Kanjorski mentioned the European area also, what is the status of the General Services Administration's agreement with the Army to take over its fleet operations in Europe?

Mr. PUGLIESE. Well, this is a case of, "Gee, I gave my boss 2 days on the new job to make a big decision." So the second day on the job we brought them the proposal which we had been pursuing with the Army for quite some years. The Army currently has 8,000 vehicles in Europe.

Mr. HORN. Eight thousand what?

Mr. PUGLIESE. Eight thousand vehicles—

Mr. HORN. Vehicles. OK.

Mr. PUGLIESE [continuing]. In Europe, and it is a situation where in some cases they are keeping three vehicles to keep one running because it is junk, and it is not American products; it is whatever was left or whatever they got their hands on, whatever was left from Desert Storm. They have about 450 employees doing that. They have looked at the numbers, decided that it sounded like it made good business sense, sounded like it was the right thing to do, to bring American products to Europe. It sounded like it was the right thing to do to reduce 450 FTE's the Army was using down to 50 that we are going to have at some point.

We are starting the first phase of it, which will be about 600 vehicles in Frankfurt. We are going to do it over probably a 3-year phase-in period, which keeps our capital outlay to a minimum. Army is my largest customer. They are 50,000 of my 148,000. They are my largest customer. They are my largest customer. They are my largest customer. I like to take care of my largest customer. They generate a lot of revenue for us, so we are going to try to do a good deal for them in Europe and bring American products there, which is what will happen.

Mr. HORN. What is your estimate on savings that will accrue to the Government by your 50 replacing 450?

Mr. PUGLIESE. Well, let me see if I can get numbers on that. Annually, the savings are going to be \$11 million a year annually.

Mr. BARRAM. When we get to 8,000.

Mr. PUGLIESE. Right.

Mr. HORN. Now, explain to me, then, what the GSA estimated cost is and what is the Army's current estimated cost?

Mr. PUGLIESE. I would probably need to give you—they are currently spending \$45 million a year to run it, and ours is \$34 million.

Mr. HORN. I am sorry.

Mr. PUGLIESE. They are currently spending \$45 million a year, and ours is estimated to be \$34 million a year to run that same—

Mr. HORN. Thirty-four million. Have they worked in their 500 or 450 full-time equivalents? Are these military or civilian personnel?

Mr. PUGLIESE. It is a mixture, Mr. Chairman, because there are some foreign nationals involved, and there are some very tricky labor laws, obviously, in Europe, especially in Germany. So they have a mixture of foreign nationals, DOD-military, and DOD-civilian. Our force takes a whole different complexion because what we do is—in fact, when we use new vehicles, they will still be under warranty, and they will be serviced by OEM manufacturer dealerships over there, and it will be a very small force to try to deal with minor problems.

Mr. HORN. Now, will we have a civil service force or foreign nationals?

Mr. PUGLIESE. We will have a mixture also. We are going to try to—and that is a legal point you need to work out—we need to work out with the German Government. We will keep our foreign nationals to a minimum. We will probably have to take some current DOD employees, and we will probably have to take some current foreign nationals, and we will supplement that with some GSA employees.

Mr. HORN. Will we have to pay housing costs for American personnel that you send over there?

Mr. PUGLIESE. There is currently—Federal Supply currently has employees both in Hawaii, Far East, and in Europe right now, and, yes, there is a housing differential paid to them.

Mr. HORN. Because some of that is fairly expensive—

Mr. PUGLIESE. Yes.

Mr. HORN [continuing]. Where you are going. Where are you going to put it primarily? Well, the first one will be Stuttgart. Stuttgart is the first one, with about 600 vehicles. And the large concentration is in Germany, as a matter of fact.

Mr. HORN. So all I am curious is are we adding apples and apples. When you say "\$45 million for the military, \$34 million for GSA," have we figured in total costs, fringes, housing allowances, the rotation cycle? Will they rotate at all home? The Army rotates at every 2 years some of their people, this kind of thing.

Mr. PUGLIESE. When we had been approached by the Army, we had to do a basic proposal, which was to prepare what it was going to cost us versus what they were currently spending and what they projected to spend. I guess if there is a missing piece in this equation, it is there is probably not any factor in there for the fact that they currently have some pretty bad vehicles over there right now,

and what they will have are brandnew vehicles, brandnew American vehicles, and that factor is not in there.

Mr. HORN. Yes. When did the Army initiate this request with GSA, approximately?

Mr. PUGLIESE. Well, I hate to tell you this, but they started talking to us in 1992.

Mr. HORN. In 1992. So the wheels of Government grind slowly. We are now in 1996.

Mr. PUGLIESE. It is pretty interesting when you can tell your best customer I like your business but not that much. It took us a long time to be able to get into a position to say, yes, we could take over the fleet.

Mr. HORN. What was our hangup? I am just curious.

Mr. PUGLIESE. We do not have enough folks to do that. If you look at the history of the fleet, the fleet in the last 10 years has more than doubled in size, and the number of FTE dedicated to fleet business has gone down, probably 400 FTE nationwide. It is almost parallel to if you looked at our agency from a historical perspective, that agency went from 40,000 folks in the 1980's down to 20,000 down to 15,000 6,000, and dropping rapidly; yet we are probably doing 5 times more business now than we ever did.

Mr. HORN. What kind of a length will be on the agreement you are going to enter into with the Army? Is this a 2-year agreement, a 5-year agreement, or what?

Mr. PUGLIESE. For the vehicle turnover?

Mr. HORN. Yes.

Mr. PUGLIESE. What we have is a normal turnover for our sedans is 3 years, which does a couple of things for us. It generally keeps the car within warranty, and it keeps our resale value fairly high. And pickup trucks, which obviously is 50 percent of our fleet, is a 6-year turnover, which also allows us to maximize our resale value and also allow them to have vehicles that are good vehicles.

Mr. HORN. Are they giving you certain benchmarks that you have to meet under this contract?

Mr. PUGLIESE. Well, not so much—they are not asking us for any benchmarks. We, in fact, have about seven benchmarks that I like to say are our rules of the road as to what we live by when we do our fleet business, and those benchmarks are generally what you would see in the private sector, which is cost per mile, resale value of the vehicle, what are particular problems, what the overall cost of the lease covers, and so those are benchmarks we impose on ourselves. They are, frankly, very happy just to get a new vehicle.

Mr. HORN. This would be the fleet primarily that handles support services pretty far behind the line.

Mr. PUGLIESE. That is correct.

Mr. HORN. Have they ever looked at the war contingency and what you would have to do then?

Mr. PUGLIESE. I was just there, as a matter of fact, about 6 months ago, and this kind is the support arm of the military fleet, in that it is not tactical vehicles. But, in fact, when we were there, Bosnia was just starting to flare up, and they were, in fact, very concerned that they might want to try to get into arrangements with us for snow-removal equipment and other types of things.

We have a fairly extensive automotive commodities center that our fleet has to buy from also, just like other folks can buy from. And we would probably anticipate trying to give them more support if we could.

Mr. HORN. Well, one last question. Let us take snow removal equipment. If it is one part of Europe or the United States and you have got to get it over there to clean the streets of Stuttgart and wherever, are they willing to put it in their cargo planes like a C-17?

Mr. PUGLIESE. We have always had an extremely cooperative arrangement with DOD. DOD happens to represent 70 percent of my business, Federal supply business, not just fleet; I mean, just in general, as a general rule. They are my biggest customer, so we always have had cooperative arrangements. But, frankly—

Mr. HORN. And they will not charge back on that?

Mr. PUGLIESE. No, they will not charge back, plus what we have had is we have had some folks step up to the plate who are so interested in what we are doing right now with this piece, that—commercial firms and the OEM manufacturers, they want their product there. I mean, this is important to them. They will do what has to be done to get their product there and support their product.

Mr. HORN. OK. We have a number of other questions. I am going to submit them for the record, and the staff will be working with you. If you could give us some answers on that, we would appreciate it. Yes?

Mrs. MALONEY. I would just like to followup with a question. The IFMS fleet of GSA, we see has grown and that agencies with their own fleets are finding that they can save money by becoming a GSA customer, which I think is a real tribute to the agency, and I congratulate you on that. I would like to know, Are the DOD fleets in GSA?

Mr. PUGLIESE. My largest customer is the Army, but there are—the simple answer is, no, not universally. The Army is my largest customer.

Mrs. MALONEY. So you have piecemeal.

Mr. PUGLIESE. I have piecemeal. The military is a very unique customer. Every service is special.

Mrs. MALONEY. And just very briefly, why are you doing such a good job? What is your secret that you do it better and save money?

Mr. PUGLIESE. Probably some things that I guess folks would expect me to apologize for, but I am not going to apologize for them, which is we can get a good deal. OEM's sell directly for us probably for 60 percent less than anybody else. We do not pay certain taxes, but in my opinion, that is what my responsibility is, to pass that along.

The Government is going to have a fleet, like it or not. In fact, what we ought to figure out is what is the most efficient and effective way to deliver that fleet service. I think we have figured that out.

Mrs. MALONEY. Congratulations.

Mr. PUGLIESE. Thank you.

Mr. HORN. Let me now pursue the leasing area and some questions there, and we will file the rest for the record response, but let us start on some of these.

As I understand it, the General Services Administration leases about 50 percent of the real estate which it controls, which is less than half the entire Federal portfolio. GSA pays more than it should. We need to reform these lease processes to produce savings. Let me give you a personal example. Members usually operate by personal examples.

Every time I walk through the Capitol, I look at the statue of Senator Bartlett of Alaska, with whom I worked, not for but with, as assistant to the whip in the Senate 30 years ago, and he once said to me, "I do not trust any estimate the Department of Defense sends me. I walked through the Pentagon one day and nobody was working." I kidded him. I said, "Was it lunch hour?" You know, that was his impression, just walking around an agency.

So my impression is when I became a Member of Congress in 1993, I looked at what my predecessor was spending on space, and he was in the beautiful Federal building in Long Beach, which bears his name, Glenn Anderson Federal Building. And I took a look at his space. I said, "What is GSA charging you?" He said, "\$80,000 a year." And I said, "This is nutty; you should not spend that much for space."

So I went out in the private sector, and obtained the most beautiful space any Federal office could have, and I only pay \$30,000 a year. I save \$50,000. So that immediately set my antennae up to how are we setting these space charges for our tenants. And in the building, of course, is the FBI, the Coast Guard, and so forth and so on.

And the other flaw in the whole Federal building was there was only one parking space. Guess who? For the Congressmen. Well, where do your clients come? So in my private space, at \$30,000 a year, I have absolutely free parking that can accommodate 1,000 people, so if I really got a lot of people seeing me that day, they do not have to pay a dime. And it just seems to me if we are going to be service friendly, we need to look at some of those charges.

Now, can anybody educate me on why—and maybe it is just because it is a recent building and you have got a lot of granite in there, maybe some marble you are advertising; I don't know. Can somebody educate me on the formula?

Mr. BARRAM. Well, I will say some things. It may well be that this is one of those issues where we have a lot of different views on it, not just necessarily you and I, but lots of people. We believe that it is important to strengthen, keep strong the central city, and we think we have a role to play in it; that is what the location policy is designed to do. It does not mean that costs ought to be higher in the central city. They may be sometimes and they may not be, so it is a complicated set of issues.

But you know, being from Los Angeles, you understand the central city and the close-in, sort of half-suburb/half-city in the suburbs, and there is a tremendously different rate that you pay for housing.

So there is really two parts, I think, to your question; and one is that we believe that we should do everything we can with Federal agencies to try to keep the central business district strong and vital because those are important in America. We also think that

we ought to be efficient so that we get the lowest prices we can for people who are housed in Government buildings.

We are doing a lot of things to help lower those rates. We are renegotiating leases. We are pushing on when it is a landlord, not an owned building, we are pushing on keeping the tax rate down, renegotiating. That is an interesting issue, too. The local community probably is not real thrilled if we push to lower property taxes for a Government building, but we think we need to do that.

We are doing as many things as we can to both anticipate and be responsive to the kind of help that we have been getting from the private sector on—we have had some roundtable discussion about what good leasing practices are. We have some that we do that are the best and some that we learned from others. So we are trying to be as responsive and as current as we can be.

Mr. HORN. Well, having said that, I am curious, Do we use the total construction costs or what? If you could file it for the record, I would like to know how you establish charges at the Federal building in San Francisco, the Federal building in Los Angeles, and the one I have in mind is the Federal building in Long Beach, which is the newest of all of them. And it just might have a very high amortization, if that is part of your formula; but I am just curious how you go setting the price.

Mr. BARRAM. We will be glad to—maybe David can give you a quick answer?

Mr. BIBB. Mr. Chairman, what we do is every 5 years have appraisers, contract appraisers look at those buildings and establish the rate based on nearby comparables. And there is a problem with doing that—

Mr. HORN. Well, but, see, it is not comparable. When I can get it for—now, grant you, I did not get in downtown Long Beach, but they give away a 3-year lease in downtown Long Beach, given the recession in the defense industry. You can get a 5-year lease, and the 5th year is free or the 1st year is free if you stay 5 years.

So I am just curious, if you can give me the formulas, we will put it in the record here.

Mr. BIBB. OK. We will be glad to do that.

Mr. HORN. I am not trying to put you on the spot here, but if you have an overall generalization that is nationwide, I would like that. But, then, I would also just like the Federal building in San Francisco, Los Angeles, and Long Beach—well, let us throw in San Diego and San Jose, and just see how do we go about setting that actual price.

Mr. BIBB. I will be glad to do that.

Mr. BARRAM. We will scare the rest of the country if we publish this price.

Mr. HORN. Well, I am just curious because it is a comparison. The economy in southern California is much worse than northern California, but I did not know if you had adjusted them, because I agree with your philosophy on getting a Federal presence in decent facilities in the inner city, and the inner city is very close to Ocean Boulevard in downtown Long Beach. In fact, we, per capita, had more difficulties in Long Beach than we did in Los Angeles. Nobody knows that because we do not have a TV station.

Mr. BARRAM. I do not know the specific building you are talking about, but sometimes we built buildings at the insistence of Members of Congress and others, and they may not have been completely necessary at the time, but that is not happening anymore.

Mr. HORN. Actually, it was needed—there is no question about it, because we have got the two largest ports in the country within a mile or two, and the port headquarters of L.A. in 5 miles, and Long Beach within 1 mile. So you have got a lot of people related to international trade, customs, and so forth.

So we will do the rest of that, then, for the record. Let me move to one other area, and then we are going to have to recess for a vote.

Travel. You have submitted travel legislation to us, and we commend you on that. It seems like a very comprehensive set of proposals, and certainly wherever we can get the chief financial officers and inspector generals to agree with agency travel experts, I think we have got a pretty good package, and you seem to do that. And I do not have any doubt you are going to save several hundred million dollars a year and improve the incentives for Federal workers.

And as I said, my round-trip to Los Angeles, which I thank you for, at \$217 is hard to beat. But let me ask you a few questions. The report of the Joint Financial Management Improvement Project listed a number of changes in travel administration to save money. Some of the changes required legislation. Those changes will save over \$300 million per year, and I will be putting that in and asking the ranking minority member and others to join with me on that.

Mrs. MALONEY. I would love to join you.

Mr. HORN. What is the status of the regulatory changes described in that report which will save \$500 million a year? Who would like to handle that ball?

Mr. BARRAM. I will let Marty answer. Let me just make a cryptic comment. This is a perfect example of your earlier \$10-to-save-\$5 kind of thing, and we are going to not spend the \$10.

Mr. WAGNER. Yes. Well, basically, I think it is also part of the reinventing-government initiative where the Federal Government is starting to catch up with a lot of private sector incentives. In terms of redoing the regulations, we are a bit behind schedule because it took a little longer to resolve the legislative proposal. We had hoped to get you that—the schedule I have with the cross-outs had March 29 when we were going to get it to you, and it looks like we got it to you yesterday or the day before.

We have about 25 regulations to change. We expect to have them all completed by the end of this year. There is about one in the Federal Register, one completed within GSA, and over the summer we will be moving through the various travel improvement initiatives.

I think also that we have to do more than what is in the JFMIP. The JFMIP—and it was an excellent job—they went through and they found all of the things that we needed to change, but they seemed to boil down to a lot of prescriptions. You have a simple rule that says, Travel as cheap as you can, but not so cheap as you cannot do your job. If the bus is cheaper, take it; but if you have

to wait 3 hours for the bus, drive a car. That is roughly what a lot of the travel regulations say.

But we say it in page after page after page, and I think we can go through a second look and simplify it rather significantly. But basically we will be moving through over the summer the regulations will be rolling out, but that is just the beginning.

Mr. HORN. I noted that the thing that changes the most and saves money is the pay the home marketing incentive. And, as I understand it, we have experiments with the Internal Revenue Service at Laguna Niguel on homework and so forth. I think that is a good idea. I am doing it with one person in my field office who is disabled who is working out of his home. It was a great breakthrough around here. I told them, "Folks, the Disabilities Act—remember that—we applied it to ourselves, so we are doing fine."

Mrs. MALONEY. The chairman walks faster than I do. He is the fastest voter I have ever seen.

Mr. HORN. After Mrs. Maloney's question and answer, we are in recess for 15 minutes after this question.

Mrs. MALONEY. I just wanted to share my own experience. You shared my experience; I think it is fair for me to share mine.

I rented space for \$60,000 my first 2 years I was in office. Then I went to GSA. I did not think of going to GSA, first of all. I went to GSA and asked them to help me find some GSA space, and now my rent is \$30,000 a year. So I had just the opposite experience, and it is better space, and more, in New York City, and that is very good because space is very, very expensive in New York. So I just wanted to congratulate you on that, and also your travel bill sounds very, very interesting.

I just wanted to ask one question, and maybe you can just give it to me in writing because I have got to go to vote. I am very concerned about the Federal workers in Federal buildings, given what happened in Oklahoma. And I do not want a detailed thing, just one page through the chairman, of what we are doing to protect Government workers. We have very large buildings in New York with, really, thousands of Government workers in it, and I must tell you that this year was a very tough year for Government workers with the bombs going off in Oklahoma and then with the shut-down. Morale was very low, and people are very frightened, really; and I think rightfully so.

A lot of our bomb threats in New York are at Government buildings, and I personally have a great deal of respect for Federal workers and State workers and city workers, and I was one myself before I was elected to office, and I would like to know what we are doing, given the new problems that we have, with advanced technology to kill people, to protect people.

And by the way, I might mention to Mr. Brasher to raise with the chairman, I think we ought to look at what we can do to protect these buildings even more. I mean, the same thing could happen to this building as in Oklahoma: Just drive up with a truck and leave it, and you could blow up a Federal Government building. So with the new changes, maybe we should be looking at maybe having walking areas around very large, intensive maybe targets where Federal workers are.

I worry, quite frankly, about this area sometimes. I could see that happening here as what happened in Oklahoma because there is no real protection around this area for vehicles just driving up, except around the Capitol, and rightly so; but I think maybe this whole area should be—I am going to miss my vote.

Mr. BARRAM. I know you have to leave, but I would be happy—we have done a lot, and I think you would be real interested. I would be happy to come see you and talk with you and write something down. Second, as you are walking out, GSA does not have responsibility for the Capitol. We do not have responsibility for the Capitol building.

Mrs. MALONEY. Who does?

Mr. BARRAM. The Architect of the Capitol.

Mrs. MALONEY. I think you should look at it. Thank you for your testimony. Thank you for saving the \$30,000 a year.

[Recess.]

Mr. HORN. OK. I am sorry to hold you, but this is a typical congressional day, and at least you are not from 3,000 miles away, and thank you for your patience.

Let me continue on a few of these areas, and I think that maybe we can wrap up the panel because I know we have some very important panels following you. By the way, Mr. Administrator, I hope you have some of your key people stay to hear those, because I think it is very important. And I wanted to get you on first with the Comptroller General. Recently, I put him on last, so he had to listen to all that went before; but out of courtesy to you as a newcomer, I did not want to submit you to that purgatory.

Mr. BARRAM. Thank you very much.

Mr. HORN. But you are certainly welcome because I think we will all learn a lot and these are excellent witnesses coming.

But let me go back to where we are on some of the leasing issues. Most of them will go to you in writing and come back; but there are a few key questions here.

Several private real estate firms have approached the committee and have noted that they offered to assist GSA in locating savings through restructuring the existing leases, challenging tax assessments, and performing lease audits in its building on a contingent-fee basis.

In other words, the risk to the Government was zero. It seems like an attractive proposal to me, and it seemed that way to the staff. If someone is willing to front the costs, split the benefits, why have these offers not been accepted by GSA? Can somebody give me a rational answer to that?

Mr. BARRAM. Well, we are looking at them, but we have done this FORM study, which we are now just beginning to assimilate. We have a lot of Federal statutes and Executive orders to follow as we do our business. The kind of proposals that I have seen—and I have just seen in a sketchy way—suggest that if we were to save a billion dollars, for example, one of the very visible or an often-heard proposal, to do that, we would have to renegotiate leases, which we are doing, by the way.

But when you renegotiate a lease, generally—well, you always have to give something to the other party, and that may mean a longer term. We have to be very careful about extending the length

of terms of our leases in a downsizing environment and in a very uncertain environment. So we need to be very careful about that.

We are trying to do that. We are doing that. And that is where the big chunk is of the dollars. We have, as you know, on the street a request for an interest, and we have 500-and-something, maybe 520 firms who have responded. We have asked them to tell us how they could do some of these things that we have all been talking about, have the private sector do it. We will be evaluating those proposals and trying to—we need to make a decision soon on whether any or a number of those are good things to be doing. Maybe DAVID would like to comment on that some more.

Mr. BIBB. Well, I think Mr. Barram has hit on the essence on some of the things that we would like to do. We do think there is potential out there on things like tax appeals and renegotiation. You have to be careful on the length of the term and not get yourself into a position where you are committed to a long term to save some money and then the tenant goes away. And we do think there is help out there in the private sector to supplement our own work force, so we are looking hard at both of those.

Mr. HORN. If I understand you correctly, you thought there might be a billion dollars in savings?

Mr. BARRAM. No, I do not; but the—

Mr. HORN. Maybe I did not hear—

Mr. BARRAM [continuing]. The CV commercial, for example, I think specifically has said at one time—I do not know if they say it still today—that they can save a billion dollars over what we spend today. We need to understand from them more clearly.

Maybe the number is \$40 million, but we need to understand what it is, because if we can save \$40 million, we ought to do it. We think the billion dollars is such a huge number, that it is hard to get traction, from a credibility point of view, on it; because if they operate under the rules we operate under, then I do not see any way they can do that.

That might bring up the question of do we need to operate under all those rules, and that is something we need to keep working on together.

Mr. HORN. Well, as I understand it, Arthur Andersen, who has been working with GSA, says maybe \$600 million a year is possible. So if some of the people coming in—and I realize people sometimes put the projections a little ahead of reality. I have dealt with computer people for 20 years, so I am well aware of that gap; I have never seen one right yet. But regardless of firm, and \$60 million sounds pretty good to me if I cannot get a billion. It beats \$40 million.

Mr. BARRAM. Right. Sure.

Mr. HORN. So where are we on that?

Mr. BARRAM. Well, Arthur Andersen, I believe, is following us on the panel, and they can address that in some detail. I think they would say that in order to get those savings, whoever does it, we or a private firm, need to have a different set of rules that we operate under. For example, we may have to have much longer leases.

But I think ask them. Let them be more specific about that. We have been working very well with Arthur Andersen. They have helped us a lot to understand our business, and they have told us

where we do well, and they have told us where we need to do better, and we are trying to be as attentive to their recommendations, and we are going to keep working with them.

Mr. HORN. I have got a chart in front of me from your agency where they try to list the advantages of virtual privatization, extended privatization, and then performance-based organization.

What their figures are—and we will put this in the record here—is \$65 million annually in administrative savings; \$500 million annually in asset-related savings; further separation of policy and operations, and, I gather, that is sort of what you are all working on, to some degree; extended privatization, revenue through sales proceeds and annual savings; cost-effectiveness through market-driven competition; Government focus on core activities and policy; and then, with the performance-based organization, which I think we would all favor, results oriented, increases operating efficiency, introduces financial and private-sector financial and economic disciplinary. I do not know what the date is on that.

Mr. BARRAM. Is that from us?

Mr. HORN. January 23, 1996. But it looks like the agency has been pursuing it or sticking its toe in the water about it, and with you as the new administrator, as you know, this is your best chance to ask a lot of questions of all those around you. I was still asking them after 18 years as a university president, and it is the way to make sure the organization gets tuned up.

Mr. BARRAM. I think if you ask the people in GSA, they would ask you not to ask me to ask any more questions.

Mr. HORN. I was hoping you would say that.

Mr. BIBB. Mr. Chairman, you do not have to ask him.

Mr. HORN. I am sure you are asking them, and this is a good time for that.

Now, I understand that obviously there is a potential conflict of interest that might occur between a commercial real estate firm negotiating on behalf of the Government, since they could have financial relationships with building owners. You can solve that problem, and I guess my query is, Has GSA thought about that and what are your thoughts on protecting the public interest in that situation?

Mr. BIBB. Well, we have thought about it, and any contract that is structured for private sector assistance will certainly have to address that. It may mean that that firm has to disqualify itself in actually providing space, and that is a choice that they would have to make; but I think it can be addressed in the contracting process.

Mr. HORN. OK. Attached to my opening statement is a table on the various areas the subcommittee is examining in terms of saving Federal dollars and improving agency management. And, frankly, there is quite a bit that can be saved there, and I look forward really to working with GSA in any way that we can to be helpful on that reauthorization and relating to some of these problems.

So we need your full attention on that if we can get that. We have very few legislative days left. It might have to go over to the next year, but obviously we would like to clean up what we can this year. And given the break for conventions by both parties and all that, the time is sort of wasting.

Mr. BARRAM. Is this an election year?

Mr. HORN. Somebody told me it is. I tune in to TV and start talking to the TV set, so I guess it is an election year. That is my criterion.

Finally, the subcommittee would like to recognize the outstanding work of a lot of your employees who have provided fleet-management services in Atlanta. The committee staff had the opportunity to visit region IV and witness Charles White negotiating substantial discounts for vehicle maintenance and admonishing auto mechanics to refrain from performing unneeded maintenance.

Mary Redmond efficiently was processing numerous invoices. Jill Stang was overseeing the entire operation, and we are limited by time from mentioning the names of all of these topnotch employees, but we wanted them to know that we think they are doing a fine job, and we wanted you to know that I know a lot of your employees are doing a terrific job because I have dealt with the agency for many years.

But this group, certainly, we were impressed with, and the purpose of the hearing is, of course, to discover ways we can do better. Any organization, no matter how well it is run, can always do better.

Mr. BARRAM. Thank you very much, Mr. Chairman. I do not think Federal employees get people from Congress giving them praise like that very often, so we really appreciate it, especially from you, because I do not think you would do it if you did not really mean it.

Mr. HORN. Well, we are going to send the rest of them to you for doling out among the staff, and that is not a political statement; but we will leave it to you. We will leave it to you, and we thank you very much for coming.

Mr. BARRAM. Thank you.

Mr. HORN. And we wish you well in what is a very tough job, because if you are serving your clients, such as the Army and others, you have got some good clients, but they make a lot of demands, and you are in business, if anyone ever was in this government. So thanks very much for coming.

Mr. BARRAM. Thank you very much.

Mr. HORN. Will the gentlemen from the next panel please come forward, Mr. Andrew R. Jones, senior manager, Arthur Andersen; and Mr. John Dues, the partner and firmwide director, Corporate Real Estate Service, Arthur Andersen.

[Witnesses sworn.]

Mr. HORN. Both witnesses affirm, and my agenda shows Mr. Jones is first at bat. If you want it the other way, be my guest. OK. Mr. Jones.

**STATEMENTS OF ANDREW R. JONES, SENIOR MANAGER, ARTHUR ANDERSEN, ACCOMPANIED BY JOHN J. DUES, PARTNER AND FIRMWIDE DIRECTOR, CORPORATE REAL ESTATE SERVICE, ARTHUR ANDERSEN**

Mr. JONES. Thank you very much, Mr. Chairman. I guess, as an Englishman by birth, "at bat" is a very appropriate way of introduction. I have submitted a testimony for the record, and I do not propose to go through everything that is included in there in order to save as much time for questioning as possible.

Mr. HORN. Right. As you know, they are automatically included in the record at this point.

Mr. JONES. In order to save as much time as possible for questions, I would just like to cover a couple of points. The FORM study, which we worked with GSA to complete and finally submitted our last report just a couple of weeks ago on the Federal Supply Service, was a collaborative effort between GSA and ourselves. The reports were prepared by GSA and are GSA reports, and we worked with GSA to help and assist them in making sure that the assumptions made and the work done was performed in accordance with standard practice in the private sector.

I think the FORM study showed one thing overall which is worth of note, and that is that GSA seems to purchase exceptionally well and then falls down in the area of overhead. In virtually every business line that we worked on with GSA, that was the overriding theme, was that in terms of actually purchasing items or services, the price witness acquired by GSA was very competitive; however, the internal overhead costs of performing those functions tended to be highly uncompetitive.

And the GSA study was one which was a full-cost, full-overhead-allocation study. With the exception of a couple of the appropriated functions within GSA, the total cost and the total overhead was allocated down to each business line. And in the process of doing that, it gives GSA the ability to make decisions which are sound economically.

By way of example, in one of the business lines we were studying, GSA was able to acquire something for approximately \$15, and they would add \$5 of overhead on top of that and charge another agency \$20. The other agency, who does not allocate their own internal overhead fully, entered into a contract with the same private sector vendor to buy it for \$19. The private sector vendor, of course, was perfectly happy to sell it to the Government at an extra \$4, and the other agency believed that they were getting a much better deal because they were getting it cheaper than they could get it from GSA for.

So extending this idea of fully allocating your costs to your various functions could be a benefit if applied to other parts of government as well.

Two very important things, I think, came out of FORM, outside of the savings identified, and that is the importance of having good management information systems, to be able to get information out of your systems on a timely basis to be able to make these important decisions on a daily basis. And I think GSA has recognized this and is moving to improve the information systems they already have, and also the need for ongoing benchmarking.

We have done a very large study, and it is important that the benefits of understanding how you benchmark, both internally within government and also in the private sector, and the procedures you put in place to be able to do that benchmarking, GSA is now working to try and make sure that this is not a one-time effort. And this is an ongoing effort where you perpetually continue to monitor, and I think it is important that that process takes place.

The FORM process has been an excellent first step, and I think you have heard from Mr. Barram today, and he fully intends to follow it through, and I hope and believe that the Congress and the executive branch will help them in their efforts as well.

On the fleet side of GSA's business, which was one of the agenda items today, the purchasing advantage was particularly dramatic in that business line. If I remember my figures correctly—and I have them here if we need to go into more detail—there was an approximate 7-cents-per-mile advantage across the board on the acquisition of motor vehicles between the data that was provided to us confidentially by private sector firms and the data provided—

Mr. HORN. Let me just ask you, is that 7-cents-a-mile amortization of the whole vehicle plus the gasoline, or what?

Mr. JONES. No. The 7 cents is just the acquisition cost.

Mr. HORN. The acquisition cost of the vehicle not the operating cost.

Mr. JONES. That's correct.

Mr. HORN. Not the new battery costs and all that.

Mr. JONES. Let me just check. The 7-cents-a-mile advantage is the total advantage, including acquisition, disposal, fuel, maintenance, and repair, and overhead.

Mr. HORN. Well, 7 cents a mile—I'm trying to get in my mind. Is there an average yearly mileage that the fleet has, or how do they figure this kind of a cost? Internal Revenue, for example, now let's you, I think, have either a 25-cent or a 30-cent-per-mile recognition if you are, say, an independent contractor driving your car somewhere.

We need to get that figure in the record at that point, the accurate one; but as I remember, it is something like that. And the House of Representatives, I believe, went up to 30-cents-a-mile reimbursement for its staff in the district, that the rest of us they do not take care of back here; but in the district, if the staff director is out on official business, you can get, I think, 30 cents-a-mile reimbursement.

So I was just curious what is the 7 cents being compared with, the Hertz? Avis? National? Other State government? California has a big operation. They usually take bid in GSA and let a private firm handle it, this kind of thing.

Mr. JONES. The specific data that we derived was from three private sector firms in the full-service-leasing business, which basically was GE Capital, ARI, and PHH—

Mr. HORN. That is the comparison.

Mr. JONES [continuing]. Most closely approximates what GSA does. As I think Mr. Pugliese pointed out, they are not in the same business as the firms like Avis and Hertz, more daily rental business.

Mr. HORN. So do we know, or was that proprietary information. Was GE one of them, you said?

Mr. JONES. Yes.

Mr. HORN. OK. Do we know what their fleet costs are per mile?

Mr. JONES. We were able to obtain that fleet cost, but in doing so, we had to sign a confidentiality agreement because it is a highly competitive environment, and they were very concerned that if their information was provided on a stand alone basis, their com-

petitors in the private sector marketplace would be advantaged by having that data available. So what we did is we took the three, and we consolidated the three different—

Mr. HORN. OK. You took three private firms that have fleet operations somewhat comparable to GSA's operations where clients are coming in or they are with one client in the case of the Army, and you are saying the cost is 7 cents a mile or the differential advantage is 7 cents a mile. I want to get the base clear here. Compared to those three comparison institutions.

Mr. JONES. That is correct, but what you have to realize is that virtually most of that advantage is in the acquisition of the vehicle price.

Mr. HORN. OK. So that carries them a long way, but somewhere you have got to work in, it seems to me, an operating cost. What is the first year, for example? How many miles traveled? What did it cost them to maintain and so forth?

Mr. JONES. This was based on an annual mileage of 40,650 miles.

Mr. HORN. Forty thousand, six hundred and fifty. And that would be the annual average for a typical car in the GSA fleet?

Mr. JONES. That is my understanding, yeah.

Mr. HORN. Well, the staff tells me it might be a 3-year—

Mr. JONES. Over 3 years. Sorry. Yes. Sorry.

Mr. HORN [continuing]. See, that is what field visits do; you get knowledge. We have people around here that do not want us to travel. Well, they are crazy. You save billions by finding what really happens. Anyhow—

Mr. JONES. That was only for sedans, though. The mileage changed based on minivans then on trucks as well, and we used different mileage based on the mileage for that category of vehicle.

Mr. HORN. But, anyhow, what I am trying to get, again, you have got three private corporations, you have looked at their fleet, they reveal to you in confidence their charges; and, presumably, their average. Would you have taken simply what 40,650 over 3 years meant for those private corporations as a standard, or if they had 100,000 in 3 years?

I mean, I am trying to get the apples/oranges problem straightened out here as to what did we compare. The 7 cents, obviously, gets my attention. It sounds like a good deal to me, but if that is the differential, I guess I would want to know what is the average cost to GSA per mile in their fleet over a 3-year period, assuming 40,650 miles is the correct figure. Do we have any number like that?

Mr. JONES. Well, what I can give you is in the sedan that we compared for the purposes of the study, the—and the cost per mile is largely dependent on how many miles you do. You have the actual costs for the private sector, the actual costs for—

Mr. HORN. Well, you have got a battery replacement you have got to do probably at 18 months if it is as bad as the batteries I seem to be buying or maybe 30 months, and you still have 6 months left. Or if they are really well designed, you go to 35 months, and then it collapses, and they do not owe you anything. Anyhow, so much for batteries this morning.

But it just seems to me that we have got to get the costs, so just file it for the record as best you can because I want to know what we are comparing.

Mr. JONES. OK. To give you some idea, the acquisition price for a sedan in the private sector in 1994 averaged out at \$8,636—sorry—for GSA averaged out at \$8,636, and for the private sector averaged out at \$11,139.

Mr. HORN. Well, that is because they have to pay taxes and GSA does not and they get a better deal on volume purchasing nationally. Is that it?

Mr. JONES. There are a number of reasons why it could occur. It could be the method in which GSA purchases vehicles, it could be the type of vehicle that GSA purchases, or it could be that there is an inherent advantage to being in government. As the automotive center is responsible primarily for the purchasing, and that is not a part of the interagency fee management system, we did not go into specific detail in approaching the OEM's to find out the either reason why this occurs.

Another potential is that they do go direct, and GSA does not go via dealership, so it takes out one of the additional layers in the process. For the information—

Mr. HORN. In helping the taxpayers save money, in essence, we are hurting the small business person in their village who goes out of business, and then more of us pay more taxes to handle the welfare clients. Do you follow me?

Mr. JONES. I follow where you are coming from.

Mr. HORN. OK. Go ahead. I will not bore any more into this thing.

Mr. JONES. There are other interesting components, and it does depend on the competitive environment in which the automobile manufacturers in the United States find themselves. In 1995, there was no competition, and as I believe—I hope that GSA will confirm this—there was only one bidder for the fleet, the sedan fleet in 1995, and as a result the differential between GSA and the private sector on the vehicles was cut to under \$1,000 per vehicle.

So when you look at \$11,000 to \$6,000, and then in 1995 it was less than a thousand, and so it depends on the competitive position of the vehicle manufacturers.

Mr. HORN. Well, go ahead. I just wanted to be clear as we go.

Mr. JONES. In fact, when we were undertaking the study, a couple of the private sector firms who we were benchmarking again did state that they believe that if they were able to purchase vehicles in a manner identical to GSA, purchasing exactly the same vehicle in exactly the same manner in exactly the same quantity, they saw no reason why they should not be able to obtain the same price.

However, on further argument, they were unable to provide any evidence to that fact, partly because the private sector has never really been asked to purchase vehicles on that scale on behalf of the Federal Government.

One of the areas that might be worth looking at, if this is to be looked at in more detail, would be to see how the States, when they have put this out to the private sector, how the purchase prices

compared between the purchase price received by the Government prior and by the private sector after that.

Various interesting results came out of the study to look at the motor vehicle fee. I think one of the things you will see from the results is that the private sector cost of actually putting the whole thing out to the private sector, including the acquisition, clearly showed that it was significantly more expensive, and it should be pointed out that that was primarily due to this purchasing advantage. And, obviously, those numbers would be different if some other assumption was appropriate for the purchasing advantage.

The model which showed the greatest amount of savings was the government corporation. But, again, based on an overall cost of \$450-odd million, it only showed potential savings arising of about \$10 million, and that was primarily due to certain relief that they might be able to get in being able to institute national contracts across the country for certain items that currently they are not able to, I think, as a result of the Service Contract Act.

The other item of more significance which came up and was discussed earlier on the previous panel is the potential to save money across Government. And as you know, the FORM study did not look just at the cost of GSA or the cost to GSA of performing functions, but the impact that GSA has across the whole of Government.

And where other agencies might be able to save money as a result of what GSA does, and that might result in GSA costing more itself, but the savings across Government will be greater. And this seems to be particularly the case in fleet, where the information gathered by GSA from the report that is prepared as a result of GSA's oversight in this area, where other agencies report their costs to GSA, showed that there is a potential to save, I think, in the region of about \$135 million per year.

Now, it should be pointed out that the reliability of the data that is available in this report is limited by any restraints that other agencies have on their ability to fully work out what their own internal costs are in the costs they submit, and we have had no look at those particular—it is included in the Federal Motor Vehicle Fee Report.

Mr. HORN. Let me just make sure I have the models clear. You are saying the Government corporation model is for the taxpayer, in terms of funding the operation, the most effective and efficient and least costly. Is that correct?

Mr. JONES. That is correct.

Mr. HORN. And what is your next least costly model?

Mr. JONES. The next least costly after that would be to maintain the fleet as it is today.

Mr. HORN. Which is the Government administration model, not a Government corporation.

Mr. JONES. That is correct.

Mr. HORN. All right. Now, what is it that you see primarily you are saving as you move from government administration as it is now to a Government corporation? Where are the primary savings?

Mr. JONES. There are two, but the primary area of savings in moving to the corporation is in terms of, as I have mentioned, the overhead structure and being able to get out of the agency over-

head structure and to put in place a more corporate level of overhead, together with certain relief from legislation which would enable GSA to do some of the things that the private sector does which currently they are not able to do in the agency environment.

Mr. HORN. Well, what overhead does GSA apply as a Government agency to these operations? What I am hearing here is that GSA, as a government agency, applies a higher overhead than GSA functioning as a government corporation would apply. Did I not hear it correctly?

Mr. JONES. If you create a government corporation outside of GSA—

Mr. HORN. Right.

Mr. JONES [continuing]. That would potentially have lower costs of overhead than if—

Mr. HORN. Well, then I need to know what is the current GSA overhead. Do you have those figures?

Mr. JONES. I would have to look it up.

Mr. HORN. Well, let us supply it for the record; but, obviously, again, it is an apples/oranges thing. I want to know—this is not an unreasonable way to run a Government agency where you charge up your costs, just as in a university you charge up overhead, and Federal audit agencies come out and audit, and as a nonprofit you are allowed a certain rate of overhead recognition and research contracts given to universities by the Federal Government. And they vary from 20 to 40 percent maybe in a public university to usually 50 to 100 percent in a private university such as MIT.

And, again, we need to know, when we say, "A Government corporation is a great idea," is it simply dropping whatever the internally mandated overhead is of the Office of Management and Budget or the agency involved, and is the source of that overhead figure an OMB directive across the Federal Government, is what I am curious to know, because, frankly, it has not come up as a question here this year, and you sort of whet my appetite, if that is the problem.

Now, we do know that the payment of taxes would certainly still carry over, nonpayment to taxes, rather, would still carry over to the Government corporation. And the prize example in history, of course, is the Tennessee Valley Authority, which every single bureaucrat and bureaucracy in this town fought tooth and nail, because what it did was in seven States of the Tennessee River create its own agricultural programs, its own resource programs, and the Department of Interior and Department of Agriculture were sitting there outside the door not able to get in. But it got the job done.

Now, that was sort of the most successful for its time. Is it successful now? I don't know. We might well get to that, but it met the needs of the region, which were not being met by quibbling agencies around this town.

So I am just curious what we are doing there, and is that the glory and the glimmer of the corporation? FAA wants a government corporation. Some of us who served on the Aviation Committee are very sympathetic. Why? They want to get around some of the rules that the Federal Government imposes on its agencies, and they want that flexibility. I fully understand it.

Nobody in their right mind would operate under some of these rules, but we do and because either Congress has mandated it or the administration has become more rigid as time goes on.

So that is what I am interested in laying out in the answer to these things when we get it into the record so that we have a full record.

Mr. JONES. There were three specific areas which were identified in the difference between the agency and the corporation. The first one was, as I mentioned, the Service Contract Act requirements which eliminate the ability to sign up national agreements across the country for maintenance and repair, and it was estimated that 3 percent of the maintenance and repair costs could be saved by that mechanism.

The option was also proposed that it would allow for vehicles to be sold directly to drivers of the vehicles, and that would eliminate some of the costs and would also potentially enable you to sell the vehicles at a slightly higher price because somebody who has driven a vehicle for all its time since it was new, if he knows how he has treated that vehicle, he may be willing to pay a slightly different price.

Mr. HORN. Let me get it straight. The Government corporation is the best deal, Government agency next-best deal, service contract with whom now? I thought the third category you said was a service contract.

Mr. JONES. No. There are three categories of the difference between the agency and the Government corporation—

Mr. HORN. Right.

Mr. JONES [continuing]. As to why the corporation was cheaper.

Mr. HORN. OK. Got you.

Mr. JONES. These are the three reasons, and the third of which was overhead, which I have mentioned. But the total savings arising from the corporation only really amount to about \$10 million a year out of the total of \$450 million. Where I see the potential for the Government corporation to play a key role in this is in the concept of what I was coming on to, which was the consolidation of the Federal vehicle fee. Mr. Pugliese had mentioned it, and I think you included it in your opening testimony of which I got a copy.

There is this whole issue over if you want to generate these savings across the whole of Government, you have to increase the cost of GSA and GSA will have to have more FTE allocated to them in order to be able to supply their clients with the service they need. And whether agencies are willing to allow their FTE's to be transferred to GSA and whether OMB is willing to raise limits imposed on GSA's FTE are two issues which might be resolved or made easier if the whole Government fleet was to be put into a corporation.

There are other reasons why you might want to consider a corporation as well, outside of those two, which are that if you did want to consider the issue of privatization further down the line, you may get much more benefit out of privatization by privatizing a Government corporation with a track record, a financial track record operating on a commercial basis but within Government rather than trying to do anything with the existing GSA fleet,

which the study certainly showed that privatization was probably not the best way to go at this stage. It does not mean that—

Mr. HORN. That privatization was what way to go? I did not hear the relevant word.

Mr. JONES. What I was saying was if you wanted to privatize it, you would probably be better off consolidating it and forming a Government corporation—

Mr. HORN. No, I understood that. In other words, you go from agency to Government corporation and then possibly privatize it.

Mr. JONES. Yes, although the study and the data we show at the moment, there is insufficient evidence to justify that provision is the way to go. There is definitely more work that needs to be done before you can reach that conclusion, and I think we are better off doing that study once you have consolidated the fleet and created the Government corporation rather than doing that study now.

Mr. HORN. Well, what would be the one major difficulty moving to privatization now from being a Government agency? I mean, I realize there are some things you could get done as a Government corporation. For example, what did England do? You are from England. Have you looked at what they did in this type of thing?

Mr. JONES. I think that if—to take your first point, what is the major difficulty, I think the major difficulty or the major barrier that would say do not do it now is what is it going to actually cost the Federal Government if the fleet is privatized. There are also other issues, such as the automotive center is the body that actually purchases the vehicles.

If you privatize it, presumably the privatized entity would no longer be able to use the acquisition center to buy vehicles, and that would then impact the volume of vehicles that the acquisition center buys. The acquisition center, in turn, therefore, may not be able to get the same price discount that it was able to obtain because it is now buying fewer vehicles because 130,000 of them have disappeared from the Government sector. That might, in turn, affect the cost of all the other existing Federal vehicle fleet operations that remain within Government.

That is why there are so many different variables in there if you just take a part of the Federal fleet and try to privatize it rather than consolidating it first.

Mr. HORN. OK. Well, go ahead with the rest of your statement, then.

Mr. JONES. That basically actually covers most of what I wanted to say on the two issues I really wanted to raise, was the purchasing advantage and the existing options and how they ranked and also the issue of consolidation of the fleet. So, on that note and in the interest of questions, I shall wrap up my comments.

[The prepared statements of Mr. Jones and Mr. Dues follow:]

***Introduction***

Good Morning. My name is Andrew Jones. I am a senior manager at Arthur Andersen in our Washington DC based Office of Government Services, a practice dedicated to working with the Federal, State and Local Governments of the USA.

I was responsible for managing our overall work and relationship with the US General Services Administration ("GSA") throughout the engagement. As such I have an understanding of all the issues that arose during the process and of the conclusions that were drawn by the GSA business line conducting each study.

Based on the agenda submitted to me in advance there are several key topics that I would like to take this opportunity to enlarge upon during this testimony.

***FORM - A Model for Business Line Analysis***

The Federal Operations Review Model ("FORM") an analytical model developed by GSA with input and assistance from Arthur Andersen ("AA") attempts to incorporate the work done by NPR with the knowledge gained by AA in this arena during assignments of this nature around the world. It is in my opinion one of the most comprehensive analyses undertaken by an agency or department in the United States Government. It sought to analyze each independent business entity operating within GSA with a goal of determining which method of operation represented the best value for money to the taxpayer considering cost and quality of services delivery. As such it sought not to minimize the cost of GSA but to minimize the cost to Government as a whole.

The FORM analysis considers 10 different operating structures and compares the cost to government of each. I have provided a list of these below and outlined a summary in Appendix A:

- Public Offering
- ESOP
- Joint Venture
- Contractor Owned Contracted Out
- Government Owned Contracted Out
- Local Government Owned and Operated
- Quasi Government Corporation
- Government Corporation

- Government Owned Dispersed Responsibility
- Government Owned Centrally Operated

The studies presented an underlying trend throughout all of the business lines; that GSA was a very good purchaser but was saddled with a large and burdening overhead structure that in many cases led to the business function being performed at an uncompetitive rate. This presents an interesting dilemma for legislators, regulators and management alike as incremental contracting out would lead to increased efficiencies, yet potentially greater savings could be obtained from internal reinvention particularly with the objective of eliminating overhead. On the other hand the reason for the heavy overhead might be endemic of the method of operation within government such that the only way to eliminate it is to contract out or privatize. This is not a decision or conclusion that can be drawn from the FORM process but one that must be made by the interested parties outlined above.

The FORM process led the way in government in the manner in which it treats overhead. FORM uses a full cost allocation methodology and GSA ensured that all overhead costs<sup>1</sup> including Offices of General Counsel and Budget were allocated down to the business line level. This provided much more realistic data upon which to base a benchmark analysis with the private sector. By way of example, in one area GSA entered into an agreement to purchase an item from the private sector at (say) \$15. This was passed on to the other agencies at (say) \$20 once overhead costs had been allocated. Another agency looking solely at direct costs entered into an agreement with the same private sector firm to purchase the same item for (say) \$18, claiming that they could purchase it more efficiently than GSA. Clearly the private sector company was delighted. This example illustrates the perils of management without full information, in this case the non allocation of procurement costs to the cost of acquisition. Improperly allocating costs leads to suboptimal decisions being made at a cost to the tax payer.

In spite of this GSA still compared favorably with many other agencies throughout the FORM process. Centralization has clearly led to a reduction in per unit acquisition cost and led to greater bargaining power, particularly in the Federal Supply Service.

In moving forward on the areas identified in the FORM process as producing significant savings to government, it is important, if the benefits of undergoing an in depth analysis of this nature are to be realized, that GSA are not required

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<sup>1</sup> Excluding Office of the Administrator, Office of Inspector General, OMB and Congressional Oversight bodies, Office of Congressional Affairs

to drop all the findings of FORM in favor of starting all over again with a series of cost comparison A-76 studies.

In many cases FORM created a series of by-products not related to the individual options themselves but which will facilitate the ongoing efforts by GSA to maintain efficiencies. The requirement for management information systems which can provide GSA management with just in time analyses of costs broken down by business line and function within business line using a full cost allocation methodology has been recognized by all participants in the FORM process. Implementing improvements to the management information systems will allow GSA to utilize the benchmarking mechanisms identified during the FORM process on an ongoing basis throughout the organization facilitating continuous improvement mechanisms.

GSA took a detailed look at what it does, how it does it, why it does it and who it does it for. In some cases this led to surprising results whether in terms of volume of businesses, repetitive processes or range of customers. All this information is critical to providing a higher level of service in the future.

GSA should be congratulated for taking a strong first step in its efforts to reinvent itself. It is now up to management to take this work and achieve some of the potential savings identified in the studies and to the legislative and executive branches to support and encourage them in their efforts.

#### *Interagency Fleet Management System ("IFMS")*

We completed our quality management assessment report on the IFMS business line in the fall of 1995. As a part of this study we entered into confidentiality agreements with three<sup>2</sup> of the four major full service fleet providers in the private sector market place<sup>3</sup>. We developed detailed benchmarks with the cooperation of these companies for three major types of vehicle acquisition, sedans, trucks and vans.

As in other business lines GSA proved to be a very effective purchaser, achieving an effective purchasing advantage in the region of 25% - 30% across a broad range of vehicles. Whether this is an advantage derived from good negotiation, inherently because they are federal government or because of the volume of cars they purchase and the manner in which they purchase them is unknown at this point. However, it should be pointed out that some of the private sector firms claimed that if they were buying vehicles on behalf of the federal government they would be able to achieve competitive prices. Since, purchasing vehicles on behalf of the federal government has not been performed

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<sup>2</sup> GE Capital, ARI and PHH

<sup>3</sup> GSA is not in the same business as companies like Hertz and Avis, who are in the daily rental business

by the private sector there is no evidence to support this claim and consequently it was not factored into our study. In addition the purchasing advantage narrowed substantially in 1995, although this was not costed or reflected in a sensitivity analysis in GSA's report. It is also a fact of life that the federal government receives tax breaks not available to the private sector such as on gasoline purchase and vehicle licensing. Since these would disappear under contractor options they were taken into consideration in the study. It was in the area of overhead that the federal government fell short in the study.

The study also considered the cost of fleet operations in other parts of the federal government<sup>4</sup> and compared those to GSA. The data used was the data submitted by those agencies to GSA as a part of its oversight role and was taken from the Federal Motor Vehicle Fleet Report<sup>5</sup>. It became clear that GSA IFMS was one of the best and probably the best full service motor vehicle providers in the federal government. As a result there is potential to realize significant savings from the consolidation of the management of the federal vehicle fleet into a single entity. The FORM study indicated that these savings were in the region of \$130M per annum, although this was based on data gathered from other agencies, and might not be totally accurate.

The study also pointed out separately that the formation of a Government Corporation or Performance Based Organization ("PBO") could also yield potential savings based on gaining relief from certain legislation<sup>6</sup> that would enable them to enter into national contracts thus reducing operating costs such as maintenance and repair. The FORM report estimated these savings to be in the region of \$10M annually. However, potentially the biggest benefit from corporation would be as a facilitation for consolidation discussed below.

Considering the political issues surrounding the consolidation of the management of the federal vehicle fleet concerning FTE allocations and the ability of GSA IFMS to accept increased workload without receiving other agencies FTE ceilings both of the above issues raised by the FORM study seem to suggest a solution that has a chance of acceptance. That would be the consolidation of the federal vehicle fleet into a single entity outside of GSA such as a government corporation but which adopts GSA approach and management mechanisms and policies. It would probably be led by existing GSA management with input from other significant agencies whose fleets have been rolled up into the organization.

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<sup>4</sup> Excluding the USPS

<sup>5</sup> 1994

<sup>6</sup> e.g. service contract act

The Automotive center <sup>7</sup>would probably not transfer into the corporation although this need not be ruled out at this stage.

Once the new entity has been established and given a few years to find its financial footing through continued government support, an investigation into its potential privatization could then proceed. Such a review should consider the value of the new corporation together with the impact on areas such as purchase price advantage, tax implications and other potential impacts on ongoing costs to determine whether such a concept had a positive net present value to the taxpayer.

In our quality management review report we stated that in pricing out the sale to a contractor option (trade sale or COCO) no consideration had been given to whether there was a franchise value that should be taken into account in calculating the sale proceeds. Questions were raised as to whether a business that could go to zero tomorrow<sup>8</sup> in terms of revenues has any value. However, this is true of almost any business producing a product. People could just stop buying it overnight. In the case of IFMS this is unlikely as the federal government would not cease to require cars overnight. If the fleet was consolidated the alternative would be to go to an alternative private sector vendor, which if the price is better and the service better is an understandable business risk, but not everyone will do it overnight.

Before making this decision a significant amount of work should be done to determine the potential value to the taxpayer of disposal both from a short and long term viewpoint. It certainly is worth pursuing.

One final note concerning alternative fuel vehicles. This represents the social element of government's involvement in full service vehicle management. There is no reason why the program could not continue within a government corporation, however, under a fully privatized scenario there is no doubt that the government would be charged an incremental cost to reflect the higher cost of this program (fuel and maintenance and repair)

### ***Conclusion***

One can never hope to provide a comprehensive list of issues in the few minutes available but these are some of the major issues confronting GSA. For almost every case Congress will be required to pass legislation in one form or another. It is important to understand that half a PBO or half a government corporation will not yield the full extent of the savings. I am grateful for the opportunity to

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<sup>7</sup> Which purchases the vehicles on behalf of IFMS as well as other Government Agencies

<sup>8</sup> There is no commitment from the user to lease the vehicle for more than one day at a time

*Andrew R. Jones / John J. Dues - Testimony May 10th 1996*

participate in this discussion and look forward to opportunities to work with this subcommittee as this process evolves.

Thank you. I will now hand over to my colleague John Dues who will discuss in more detail issues surrounding Public Buildings Service. After which we would be pleased to answer any questions.

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***Property Acquisition & Realty Services***

Good Morning Mr. Chairman:

Thank you for the opportunity to address your Subcommittee relevant to Arthur Andersen's work with the Public Buildings Service.

We are pleased to offer our insights into the FORM process, as well as "lessons learned" and opportunities going forward with respect to PBS's operations.

My name is John Dues and I am a partner with Arthur Andersen responsible for our worldwide corporate real estate services practice. Attached to my formal comments submitted is a biography outlining my responsibilities and experience. In my capacity, I have both led and worked on numerous real estate and business assignments for a wide variety of public and private organizations including GSA, AT&T, IBM, Canada Post, Lockheed, Mobil, MCI, Westinghouse, and Mellon Bank to name a few. Prior to joining Arthur Andersen, I worked for a Fortune 100 Corporation where I served in a number of business positions including that as the Director of Corporate Real Estate Services and President of their Real Estate Services Subsidiary. With over 25 years of experience dealing with real property planning, acquisition, construction, management and redeployment of assets targeted at satisfying user objectives, I have obtained a unique familiarity with the real property services industry.

Since 1994, I have led Arthur Andersen's effort in working with PBS on both Reinvention and the FORM process. We began working at PBS on FORM in January 1995, completed the last of PBS's six business lines in February 1996, and have continued to work with PBS on various projects, including its management plan and leasing & disposal programs. Thus, we have developed an enlightened familiarity with PBS's operations - how it did business in the past, how it is doing business currently, and its plans for going forward.

I would like to provide Arthur Andersen's perspective on PBS's restructuring initiatives by addressing the following questions:

- What feedback has PBS received from the private sector regarding its operations?
- What did PBS learn from the FORM process?
- What is PBS's plan to build upon the FORM findings?
- What is PBS doing with respect to its leasing program?

I would then like to close my remarks by commenting on where Arthur Andersen believes PBS should be and is heading.

***What Feedback Has PBS Received From The Private Sector Regarding Its Operations?***

As part of our role in the FORM Process, Arthur Andersen secured private sector feedback to targeted inquiries on behalf of PBS. We also facilitated roundtables for each of the PBS business lines where private sector companies involved in real property acquisition, leasing, construction and management would discuss with PBS management each of the PBS business lines. Subsequent to the roundtables, Arthur Andersen followed up with many companies to obtain more specific feedback and data, as well as qualify feedback received, often on a confidential and proprietary basis.

This process presented PBS with the opportunity to hear firsthand about best practices in the private sector and solicit informed feedback and perspective on its operations. A sampling of what these companies told PBS includes:

- PBS seems encumbered by too many rules and regulations that limit operational flexibility, increase costs and hinder customer service;
- PBS's vendor selection process is too long and overly cumbersome;
- PBS has an extensive and elaborate process to select vendors, followed by intensive expectations for reporting and monitoring performance, and then subjects these vendors to multiple layers of supervision - this is the concept of "checkers checking checkers";
- Performance measurement and benchmarking initiatives should be expanded and monitored more regularly;
- Cycle times for project execution and delivery should be reduced;
- Client agencies should be given more choice with respect to space solutions, however, there continues to be a need and role for centralized management of the federal real property portfolio and services management much like that provided by PBS;
- PBS should make greater use of strategic alliances with qualified vendors to benefit from private sector efficiencies and expertise and, in turn, reward contractors for superior performance;

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- PBS's information systems need to be significantly upgraded to allow it to make more timely and informed decisions;
- PBS should utilize activity based costing to more accurately monitor and manage its activities;
- Personnel policies should be modified to give PBS employees more "field level" authority, hold employees accountable for results, and provide incentives to boost performance; and
- PBS should contract out commodity services not "inherently governmental" where competitive pricing and/or efficiencies can be achieved primarily in the areas of property management and space delivery services.

#### ***What Did PBS Learn From The FORM Process?***

The FORM process produced the following key findings with respect to PBS's operations:

- PBS should revisit its current operating practices and implement private sector "best practices" in areas such as performance measurement, activity-based costing, greater focus on the customer, incentive-based compensation rewards, upgraded information systems, and the like;
- PBS should explore contracting opportunities where it is cost effective to do so and where it is needed to leverage internal resources primarily in certain select areas of property management and space delivery realty services; and
- PBS should pursue areas identified by FORM to reduce overhead costs and obtain relief from statutory and regulatory requirements, specifically those dealing with contracting and personnel; perhaps looking to a new operating environment like a Government Corporation or a Performance Based Organization to help PBS achieve such relief.

#### ***What Is PBS's Plan To Build Upon The FORM Findings?***

FORM has been a major component of PBS's overall program to "work better and cost less." Since 1993, PBS has been working to realign its operations to look more like the private sector and refocus its emphasis on increased efficiency, reducing costs and improve customer service. In our opinion, their efforts have

resulted in a better and more efficient operation.

Can and should PBS do more? - yes.

PBS has prepared a draft Management Plan which describes its program going forward with respect to its improvement initiatives, namely FORM, business process reengineering, and workplace productivity. The major FORM findings cited above are included in this plan:

- Contracting out selected activities where competitively priced;
- Pursuing regulatory relief where needed;
- Implementing "best practices" where possible; and
- Further exploring new operating environments such as a Government Corporation or a Performance Based Organization.

*What Is PBS Doing With Respect To Its Leasing Program?*

Property Acquisition & Realty Services has an on-going improvement program that includes many initiatives utilized by private sector companies:

- the selection and installation of new systems technology;
- accelerated renegotiation of existing lease contracts and challenges of real estate taxes;
- active program to seek legislative reform to shorten processes and reduce paperwork requirements;
- more responsive and flexible structures with respect to rental rate charges to client agencies and prices for other services provided by PBS; and
- reengineering of major business processes such as the lease acquisition, space delivery, and outleasing.

Property Acquisition is increasing private sector involvement in regional service delivery:

- In Region 3 (Philadelphia), GSA has awarded a contract to LaSalle Partners for the delivery of lease acquisition, administration and alterations services to client agencies.
- In Region 10 (Auburn, Washington), contracts were awarded in four states in August 1995 to private sector firms for the delivery of a variety of lease acquisition services.

In response to the FORM findings, Property Acquisition recently announced a major public/private partnership initiative for real estate space delivery services. For this program to be successful, we believe it must:

- Be national in scope, giving opportunities to those qualified & competent service providers to offer leverage or volume advantages to government while reasonably assuring government that such services will be applied consistently and with measurable standards;
- Give private sector contractors the flexibility to creatively assist PBS in providing a wide variety of services to federal agencies, including lease acquisition, lease administration, space planning, renegotiation of leases, etc.; and
- Provide adequate workload to contractors to enable them to provide volume pricing discounts and commit to a high level of service.

#### *Closing Remarks*

PBS, by statute, is a mandatory supplier of real estate services to federal agencies, i.e., in most cases, agencies have to deal with PBS. In turn, PBS has often been seen as a control organization dictating solutions rather than as a partner pursuing competitive solutions to satisfy client real property needs.

Yet, we have found that PBS plays a valuable role in providing coordinated management of the federal government's real estate inventory. PBS's value is in acting as the federal government's "in-house" entity responsible for assuring government of the proper planning, acquisition, construction management and redeployment of real property assets to satisfy client needs.

In fact, private sector feedback indicates that expansion of PBS's role could result in government-wide efficiencies through the leveraging PBS's expertise, buying power and "market presence."

The current economic and political environment has placed significant pressure on PBS to reduce costs, operate more efficiently and improve customer service. We believe that PBS management agrees with this and is committed to meet the challenge.

The new PBS Management Plan in many ways points PBS in the right direction. The key issue now, however, is execution. The onus is on PBS to move aggressively to devote the required resources to accelerate its programs and execute its plan.

Can PBS operate more efficiently? Yes. When comparing PBS with the private sector, however, one has to keep in mind that the government is bound by rules, regulations, policies and orders that do not exist in parallel for private sector companies. These "statutory requirements" result in higher costs and in many cases, slow project execution.

Relief from these statutory requirements -- whether under the current agency structure, under a Government Corporation or under a PBO-type structure -- would allow PBS to reduce costs and take greater advantage of market opportunity. As you well know, however, PBS cannot do this alone - it needs the support of Congress and the Executive Branch.

The private sector can play a greater role in PBS's improvement efforts. Properly structured public/private partnerships would leverage PBS's internal resources and allow it to focus on "core activities," improve customer service, and reduce costs.

PBS's recently announced leasing initiative, if structured as described previously, could provide a very good opportunity for PBS and private sector contractors to work together to create a government that "works better and costs less."

This concludes my prepared remarks. Thank you once again for the opportunity to address the committee on this important subject. I would be pleased to answer any questions you may have.

## Appendix A

### Public Offering

The sale of shares to the public through a subscription offer. The Initial Public Offer ("IPO") will be accompanied by the granting of a listing on one of the major world stock exchanges, allowing the shares to be freely traded.

Subscribers can either be individuals or corporations (usually investment institutions) and can be selected in advance if desired (although in this case the offering would be referred to as a private placement). The sale of shares would be underwritten by a consortium of investment banks ensuring that, even if public demand is low, the sale will go ahead and cash will be raised for the vendor.

For a government owned agency the IPO process will usually start with corporatization to make a sale more attractive to potential buyers. This will involve measures to reduce government involvement in the agency and to improve its independence and efficiency. The exact process to be followed from this point onwards will depend upon the intended place of listing the company. Allowing therefore for variations due to the regulatory system in place, the general process will be as follows:

- Preparation of audited accounts for previous years,
- Preparation of business plan and financial forecasts,
- Appointment of advisers (Sponsor, legal adviser and reporting accountant),
- Appointment of underwriters,
- Preparation of issue documents (prospectus and offer document),
- Publicity campaign (replaced with meetings with investors if targeted to institutions),
- Issue of documentation,
- Pricing of issue,
- Receipt of applications / bids,
- Allocation of shares,
- Listing and trading commence.

### ESOP

In an Employee Share Ownership Plan ("ESOP") the company is effectively sold to its employees. Each employee will be given the opportunity to purchase shares in a new company into which the agency is sold, possibly with the option of deferred or staggered payment. Debt and mezzanine finance can be used to augment to employees resources allowing them to leverage up their investment

potential. Depending on the legal environment in place it may be possible to vary the number of shares offered depending on seniority or importance within the company.

An alternative ESOP is the Management Buy Out ("MBO") where the management of the agency will team up with a venture capital investor to buy out the agency. This effectively limits share ownership to key employees (the directors).

In both cases the usual procedure would be for the buy out team to set up a company ("newco") which would then use its cash resources (from share subscriptions and loans) to buy the agency from the government. Some degree of corporatization would be necessary prior to the transaction but, as the buyers know the business well, the majority of this process could be carried out once the deal is completed.

The structure of the transaction can help to boost employee commitment to efficiency and public share ownership, common political goals of the privatization process. It may be possible to include a listing into the ESOP process either immediately or at a time in the future. This is a necessary step if shareholders are to be able to extract value from their shareholdings without special company buy back provisions.

The process of the ESOP will be as follows:

- Preparation of business plan and financial forecasts by newco managers,
- Establishment of buy out company, newco,
- Sale of shares in newco to employees,
- Approach investment partners for loan, mezzanine or further equity finance,
- Sale of agency to newco.

### Joint Venture

Joint venture ("JV") is the term used to describe an operation owned and operated equally by two organizations. A new company is established with joint ownership which will buy the agency for sale. Usually the ownership will be a direct 50%/50% split otherwise one organization can have control. Both shareholders can contribute resources to the JV company allowing a mix of skills to create a highly efficient and innovative company which either shareholder would not be able to participate in individually.

Recent examples of JVs include the movement of many western companies into eastern Europe. The established western companies bring products and

technical skills, the eastern partners bring local knowledge and low cost technical and labor facilities. The result for the western company is market penetration and low cost base production which would not otherwise be possible, the eastern partner has access to products and technology which would not otherwise be affordable.

The process to establish the JV would follow the following pattern:

- Establishment of JV company ("JVCO") owned 50%/50% by the government and a commercial partner.
- Injection of resources into JVCO either as cash or business assets,
- Purchase of the agency by JVCO from the government.

### Contracted Out

#### a) GOCO

Government agencies can be operated by third party non governmental organizations. In the case of Government owned contracted out organizations the third party charge an annual fee to operate the agency and in return it is expected that commercial management can cut costs and improve efficiency within a typically highly bureaucratic environment.

This situation allows the government to retain policy and management control over the agency while allowing commercial management staff to run the agency in the most efficient possible way. The change within the agency is usually centered around reduction of superfluous labor and procedures leading to some reduction in staffing levels. Otherwise remaining employees and the government will not notice a major difference in the agency.

This approach has worked well in the UK with agencies such as the DVLC (the body responsible for driver and vehicle registrations) now operated by a non governmental company.

The procedure for the GOCO approach would be as follows:

- Preparation of tender documents,
- Selection of prospective contractors,
- Issue of invitation to treat,
- Receipt of offers,
- Choice of contractor.

## b) COCO

An alternative approach is to sell the entire agency to a third party and then pay a fee for their services. Contractor Owned Contractor Operated is in reality a trade sale of an agency to a commercial buyer and involves the procedures relevant to that type of transaction. The trade sale route has been effectively used in the past in circumstances where the work of an agency is equipment rather than personnel based .

An example of this, again from the UK, is that of refuse collection. Many local councils have sold their refuse collection agencies to third parties as ongoing businesses which can compete to offer services to the councils. This practice has had the effect of increasing competition and efficiency within the privatized agencies.

Procedures will include:

- Corporatization,
- Preparation of business plan and financial forecasts,
- Identification of potential buyers,
- Circulation of sales memorandum to potential buyers,
- Receipt of offers,
- Sale.

#### Local Government Owned and Operated

In the case of localized services managed on a national basis it may be possible to split the operations into locally manageable units and devolve authority for these units to local governments. In some cases this will necessitate adjustments to local government financing from central government but in the case of self financing agencies this will not be a problem.

The main job related to the change will be in splitting the national organization into state agencies. This will require a change in the organizational structure and management roles and will probably lead to multiplication of the management function. The resultant increases in overheads may reduce the overall efficiency of the organization, and the economies of scale may well be lost. However if suitable agencies are chosen for this type of treatment, the efficiency changes gained by introducing shorter chains of responsibility and the ability to react quickly to local requirements should more than compensate for this.

The procedures involved in the devolvement will include:

Assessment and restructuring of the corporate structure to make it suitable for independent local operation,  
Creation of local reporting units,  
Assessment and restructuring of financing and budgetary concerns,  
Transfer of responsibility to local government.

#### Quasi Government Corporation

A quasi government corporation is an independent corporate entity owned by the government. Management would be commercially and politically independent as would the management of any company. The corporation could be run on profit or non profit grounds with corporate targets set accordingly.

This option would effectively be a corporatization procedure involving making the necessary changes to change the management, reporting and support structures to those of an incorporated body rather than those of a government entity.

Net revenues after tax could either be paid up to the government as a dividend or reinvested in the business.

Steps to be taken to achieve the quasi government situation would include:

Analysis and restructuring of the organization structure,  
Setting corporate goals and targets including a system of achievement rating,  
Incorporation of agency.

#### Government Corporation

As with the quasi government corporation with the exception that the government will have direct influence over policy and management by employing senior or all staff as civil servants.

#### Government Owned Dispersed Responsibility

Where the operations of one agency are used by several other secondary agencies it may be possible to move responsibility for that operation from the central management agency to the secondary agencies which would each take responsibility for their own portion of the operation.

This would effectively remove the need for the primary agency which could then be disbanded or put to a different use. This procedure would be similar to

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the move towards local government owned and operated agencies and would result in a similar devolution of responsibility.

Like the local government transfer this can potentially lead to a multiplication of the management function and reduction in the beneficial economies of scale effect and result in inefficiencies. Thus care needs to be taken to select only the appropriate activities for such a change.

Government Owned Centrally Operated

If the agency were to be operated by the GSA no change would be noticed. If however it was felt that it may be more appropriate to run a sub division from a different agency a reversal of the dispersed responsibility scenario can take place transferring the management role to another agency.

Mr. HORN. Let me just ask the staff, we need to ask the General Accounting Office to take a look at comparable situations in France, England, Germany, et cetera. Is there privatization there? How do they handle the fleet operation? They might well have done and I just do not know about it, but let us followup on that.

So, now, if you are done, then Mr. Dues, I am going to permit you to be next. Welcome.

Mr. DUES. Thank you. Thanks for the opportunity to address the subcommittee. I, like my colleague, have prepared some remarks which I have submitted to the committee for the record and will not recast those remarks here.

I do have a few things I would like to say. Since 1994, I have been involved with GSA, particularly with PBS. My background is dominantly in planning, acquiring, building, managing, and re-deploying assets for use by user groups working with organizations, corporations, institutions, and governments. I have worked with governments outside the United States, with agencies such as Canada Post, and have studied models in England and Australia and am currently working with the Australian Government in re-determining how it is going to provide its services going forward.

Since 1994, I have had the opportunity to offer some advice, help them test their findings here at PBS, and provide legitimate sources for input. We have conducted a number of roundtables. We have made available to the PBS organization in excess of 100 corporations and service firms and others in the forms of roundtables, private conversations, and intimate input in how they operate and what their cost of operation is.

We have gotten enormous feedback, constructive feedback. It has been an excellent opportunity, also for the private sector, to learn how GSA conducts its business and the limitations and constraints it deals with. Like my colleague, Andrew, I have learned, too, that GSA has certain limitations and constraints because it is government that it not needs to deal with. Some of those are statutory, some of them are Executive orders, some of them are rules and regulations they place themselves, all of which, when combined, make them operate different than the private sector.

It is very difficult for this agency to benchmark itself to the private sector on part without taking those things into understanding. There are structural impediments and performance measurements that are very different in Government, and particularly in PBS, than they are to the private sector.

I will quote a friend of mine who is an officer of a major service firm, when attending the roundtable on property acquisition and learning of all the actions and activities that the folks at PBS had to go through before they could go to the market, he said, Well, when you finish all of those things, then come to us; we will be ready to help you.

Well, it is those things that many of these people involved in PBS do, and I applaud you for compliments to the people of GSA for what they have done. I am a new member since 1994 in understanding what they do, and I am very impressed with the types of things that they have to do.

With having said that, I would suggest to you there are opportunities for improvement. There continue to be opportunities for im-

provement, many of which they have already identified. Like my colleague, I believe the Government corporation was the attractive alternative, the most financially attractive alternative available to the PBS organization, as well as to the fleet. And there are reasons around statutes, regulations, the acquisition rules, and things that they have to deal with as an agency versus dealing with as a government corporation.

Those burdensome rules, which they have identified and, I believe, on occasion brought to the Hill for consideration, those kinds of limitations and constraints are unique to Government and cause them to sometimes pay for something that might be considered a premium by private-sector firms.

The types of things we heard from, a sampling of these companies, include that PBS seems encumbered by too many rules, regulations that limit flexibility, its ability to act quickly. It affects its cycle time. They seem cumbersome when explained to people who do the same kind of work for corporations or for other agencies around the world.

PBS should make greater use, we have also heard, use of strategic alliances with qualified vendors to benefit from private-sector efficiencies and expertise and reward contractors for superior performance. We have heard this from some of the private-sector testimony that we have had in your committee and you have had to your staff. I know those firms have met with, those firms were part of the input process to PBS, and those folks have given tremendous input to this organization, to GSA, and I applaud them for that.

But I would also suggest to my colleagues in those areas that often they are looking at the industry through their traditional experience rather than the experience of dealing with Government, and there are things that come down from the Hill on occasion that are unique to government that these folks do not deal with when they are dealing with IBM or AT&T or Mobil or Motorola or other firms. We could go on with the litany. The firms are all committed to helping—

Mr. HORN. On that point, do you just have a couple of examples that what is unique for Government that we have mandated that is making their life miserable?

Mr. DUES. I could give you a couple of examples—

Mr. HORN. Good.

Mr. DUES [continuing]. And then I could follow up later for some more. Your Competition in Contracting Act that you passed in 1984 requires the Government to use full and open competition. The way that that is interpreted and used is very different than in the private sector. The private sector would look to create two or three legitimate alternatives, would negotiate as far as they could, beat those to death, not look for somebody else to confirm behind them in the appraisal process that what they got might be competitive, but would look for the individual that they hired to go out and do that project to penetrate that class IV and get the best deal after they get down to two or three instead of taking strictly what might be perceived, according to number, a whole set of menu items as the best deal. There are handcuffs on the way some of these folks have to negotiate the contracts.

The Public Buildings Act of 1959 requires congressional committee approval of leases with annual rent over \$1,740,000, I think, by fiscal year 1997 and further requires congressional committee of lease alteration projects in excess of \$750,000. Typically, an agency like this or an organization like this in a corporation would have the leeway to do things in terms of \$5 million. So the hurdle rates, or the cliff points, as they call them in the private sector, are a lot higher than the cliff points that these folks in PBS enjoy and have to deal with.

The Intergovernmental Cooperation Act of 1968—I could go on and on, and I can list these—

Mr. HORN. Well, are they all in your testimony?

Mr. JONES. They are not. They are in other things that we have done, and we will be happy to supply that to you subsequent to—

Mr. HORN. Good. Let us make sure the staff follows up with a question on that because I am interested in changing that. Now, some of our acquisition/procurement laws have been changed—

Mr. DUES. Yes, they have.

Mr. HORN [continuing]. And we need to make sure they apply here. And you are absolutely right on the hurdles. And, of course, with that would come the question of the degree to which they can delegate to various departments and maybe get as good a deal as they get in terms of implementation for various and sundry reasons. And if you have any thoughts on that, I would appreciate having them.

Mr. DUES. OK. We will put something together for you.

Mr. HORN. Thank you.

Mr. DUES. I have a couple of more comments, if I may. Since working with GSA in 1994, I have had the opportunity of focusing on this organization and trying to help them meet their objective of trying to create a Government that works better and costs less. I think it is a wonderful moniker, as long as everyone believes it and is working toward a common goal.

I have to suggest to you that when we arrived at PBS back in 1994, the first arrival was part of the reinvention process, and they were starving for information from the private sector, which I applauded them, and we made that available. As we went into FORM, I am not sure if the word I would use is "starving." There was an enormous fear and questions and concern as to why we were going through this very difficult, self-evaluation process.

And, by the way, that is a fear and concern that is not unique to government: IBM has gone through it, AT&T has gone through it, and other organizations in communities like in Canada, when Canada Post restructured their organization, the Public Works of Canada thought they were going to be the provider, and it turned out to be a collaborative effort put together by several firms that brought those firms together to provide those services. There was fear among employees. There was fear that this was another way of someone looking over their shoulder and finding a way to eliminate their job.

I applaud the people who participated in that program because, with that fear, still many people stepped up and said, Look, this is the way we have got to look at ourselves. Things are going to change. We have gone through a fundamental structural change in

the way we are going to conduct ourselves going forward, and we need to be participants in that process.

Now, there were some that were concerned about it and continue to be concerned about it, but they stepped forward, and as a result of that, I was pleased to see the results that we were able to come away with on a collaborative effort, whether it was from the unions or from the management, whether it was from the regions or from the central office. And I applaud the leadership during that time for getting this organization there.

Some of the results were the organization's structure is more aligned with the private sector, and what I mean by that, it looks like the private sector. People who do property acquisition in the private sector; there are folks who do property acquisition in GSA; they can compare themselves. They can talk to people who do that kind of work.

They also have the timeout and review, as you know and have seen in the past, of about a billion and a half of savings as they stood back and watched themselves. As of this morning—and I do not know if the Administrator had this available to him, and, David, I think you do—as of this morning, it has been reported over the last 2 years, because of the leasing strategies and the visits to looking at different ways of approaching leasing, they have been able to save \$338 million over the last 2 years in looking closely at renegotiating leases early, lease audits, tax issues, some of the strategies that we talked about and presented to you and that you saw the prior Administrator present to you some time ago as he talked about the \$565 million.

They are renegotiating the existing lease contract. They are looking at the leased contracting processes to net versus growth so that they are managing the incremental issues of leasing versus just the gross number. They are looking at future capital expenditures and how they churn space, reuse space, constantly reuse the space.

These are strategies that are implemented daily in the private sector that they have learned from and are doing. By the way, we would like to say these are new things they are doing; they are not. They have been doing a lot of this thing all along, a lot of these strategies all along. They are looking more closely and more intensely at eliminating underutilized space; and property tax appeals and lease audits, they are pursuing those.

Some of those have political implications tied to them. It is very difficult—I will be candid with you—if I was a governmental employee from the Federal Government to walk into a community and say, I would like to lower my taxes in my public building that I lease by 50 percent for functional economic obsolescence at a time when I am also going to lower your revenues that I am going to share with you to pay for your bills locally.

So there are political implications that these folks have to balance with the strategies that are available to them in the marketplace.

The program that most recently has been advertised in the market—and the administrator mentioned it—is a program to try to expand the use of public/private partnerships and bring in the best of the best to help these folks look at new strategies and tactics but

also systems and technology. I concur with my colleague when he said that information systems seem to be lacking a bit.

It took us a little while, as I think GSA will suggest to you, to learn how many new leases were entered into in 1994, and then after some exhaustive period of time we found out that maybe we missed that number by 50 percent in total contract dollars. Well, there are systems now that they have available to them they have explored and are in the process of implementing that will give them this information instantaneously so they can react faster and make decisions quicker and be able to supply you with better information realtime.

I think PBS has come a long way. I think there is a lot yet to do. I think they are headed in the right direction and they have the right kinds of input sources that they are utilizing to go forward. I would be happy to answer any questions that you might have.

Mr. HORN. Well, we thank you both for that very fine testimony. Let us get into a few areas, and then we will proceed with the next panel. I am conscious of everybody's time. We are not breaking for lunch, so we will just keep at it.

Would the business of the private/public partnerships that we have talked about, you have isolated, I take it, in your report, the statutory and the regulatory difficulties there, so we do not need to explore that any more.

Mr. DUES. Yes.

Mr. HORN. And I am curious what you had to say about the proposals to renegotiate the leases and to challenge the tax assessments and audit the leases for a percentage of savings. Did you do a random sample of that, or how did you go about that?

Mr. DUES. In determining what the potential for savings was?

Mr. HORN. Yes, yes.

Mr. DUES. What we did was we went through the inventory as it existed today—and in this particular case we are talking about the leased-property inventory, real property inventory—and we determined what the current load was, and we looked at experiences at others with significant portfolios, and we made an estimate as to what we thought would be achievable, given the fact that this inventory has probably not received intensive scrubbing in this area in recent times, what would be conservatively achievable in those particular arenas.

These strategies that I suggested to you that I listed earlier are the same strategies that are being suggested by private firms to corporations and other agencies, as well as this agency, in written publications to you and to others.

These strategies range from \$500 million, as I have suggested and I believe might be available to this organization, to the billion dollars that I have heard reported by others. I cannot tell you whether it is a billion, \$500 million, or \$5 billion. It is a little hard for me to believe that it is \$5 billion when the annual rental is \$2.4 billion, but I can suggest to you that there is value available, they are pursuing those strategies, and I believe as they continue to pursue those strategies, even in their current confines, they ought to be able to achieve somewhere in the neighborhood of \$500 million over the 36-month period that we suggested they would be

after it. And they are at \$338 million already in the last 2 fiscal years.

Mr. HORN. Now, there are a number of other agencies that have somewhat similar responsibilities, not quite as detailed, not quite as revenue enhancing as GSA, and that would be the public land group over in the Interior Department. Have you had a chance to look at how other Government agencies keep track of their assets? In your comments you seem to say they are a little laggard in terms of high technology as compared to private firms that would be keeping these data in some systematic way that they could cut it various and sundry ways to see if they are getting their fair return.

Mr. JONES. I have not had the contractual opportunity to look at those other agencies. I have had some workings with State and have made proposals from time to time to track capital programs for the Department of State outside the United States for its 10,000 units of property and 300-some embassies, and I have also had opportunities to work with the Postal Service.

I would suggest to you that my observations are whether it is the United States Government or it is in the United Kingdom or it is what we found in Australia or found in Canada, one of the common threads among all Government is that while they are ahead of the curve in many areas, one of the areas they are not ahead of the curve is in the constructive use of technology and in tracking costs in activity-based costing so that you understand that whether it is a piece of personal property or a piece of real property, what the true cost of that real property is.

I can tell you PBS's response has been, "We agree with you. We need to fix that. We are fixing that." And I can suggest to you that as of today, my understanding is that they have identified a system that will help them do that, and I think they have finished piloting the program or are in the process of pursuing that.

Mr. HORN. Is this a matter of the software or the basic hardware? What is the problem?

Mr. JONES. The software and its applications.

Mr. HORN. It is the software?

Mr. JONES. Yes, sir.

Mr. HORN. And yet that software is available.

Mr. JONES. Yes, readily available.

Mr. HORN. And it would mean a major conversion to that software, though, I take it. Is that what has been—

Mr. JONES. I would not use the word "major" in today's market, no. It would mean adjusting to a software application that would allow you to activity base costs and change the way you account for these costs, and that is under way at PBS, and they are pursuing that aggressively.

Mr. HORN. In your experience in working with other countries and larger companies as you have in their leasing operations, did the most efficient organizations have a mandatory-source requirement that prevented competition?

Mr. JONES. Yes. No. Let me see if I can explain that. There has been an evolution of recent in corporations where they have an in-house organization, much like the PBS organization, acting on behalf of that company, whether it is an IBM, AT&T, Lucent, or who-

ever you are using, if you are using the post-AT&T splitup, they all have organizations who will act as portfolio managers looking at the assets.

It is a major investment for them. It is one of the three largest areas where they invest funds. They will take an organization and put that organization in place, manage the process, and aggressively pursue the very best they can get in the marketplace.

GSA, as you look at PBS's organization and GSA in particular, they are acquiring about 90 percent—they spend about 90 percent of their moneys elsewhere outside the agency. About 10 percent of it is spent internally. That is true and similar to what you find in corporations and institutions.

And, by the way, as they changed the way they did Canada Post, as Canada Post moved to a private organization, they were able to find market sources to work with their equivalent to a PBS within the Canada Post organization by going out and finding a couple of companies who built a collaboration of 30 organizations to support that. So, yes, some have the mandatory group that they have to deal with, and some do not.

I can tell you in the case of some of these organizations, like Westinghouse or Continental Bank at one point or Baxter Health Care, they determined that this was not a prime business that was readily available in the marketplace, and thus we are going to look at the marketplace to provide that kind of service, and what we need around here in the case of Continental Bank was bankers and in the case of Baxter was people who bought, sold, and distributed product. In the case of Westinghouse, it was whatever we are going to need going forward, and we did not need this as a strategic element.

I can tell you in all of those cases, they have reconsidered their position; and in the case of Westinghouse, they are in the process of rebuilding a real estate organization to take care of that oversight of that asset pool that they had lost track of particularly for some period of time. Does that answer your question?

Mr. HORN. Yes. That is very helpful. Let me move—I am going to hold off on the privatization questions because we are really going to hold a separate hearing on these, and you mentioned you did not have much worldwide comparison data.

Mr. JONES. We have some.

Mr. HORN. You have some? Well, we would love to have whatever you have, and we are going to ask GAO to take a look at privatized motor vehicle fleets, if such exist around the world in Europe, in Japan, wherever.

Let me move to another area here on the fleet. In the Federal operations review model, attestation letter for the motor vehicle fleet, as I understand it, the Arthur Andersen study noted that GSA did not consider the outright privatization of the Federal fleet. I am curious if you have any base for any figure as to what the sales price could be if GSA sold its fleet to focus on policy. In other words, is there any way you can even get at it unless we do a lot more work?

Mr. JONES. The study conducted by GSA as a part of the FORM process made the assumption that if you disposed of the Federal vehicle fleet, the disposal proceeds would be equal to the net book

value of the vehicles, which I think was in the region of about \$1.2 million.

Mr. HORN. But it would not help much with replacement, since they have the volume advantage but they do not have the tax advantage. Is that correct?

Mr. JONES. The private sector does not have the tax advantage.

Mr. HORN. Right. But they would have the volume, if you assume—now, they might be more efficient in some way and say we are going to order less, but they would still have such a massive volume involved that they would get a darn-good deal from the corporations in Detroit or elsewhere furnishing cars, would they not?

Mr. JONES. There is a distinct possibility the answer to that question is “yes,” but we gathered no evidence as part of the FORM process which would permit me to answer that categorically yes.

Mr. HORN. But if your only base for looking at privatization was the vehicles, you were not really looking at the business because the vehicles are not the business; they are a tool by which the business achieves its goal.

Mr. JONES. We put a comment in our attestation which basically related to the option, which was called contractor owned/contractor operated, which is effectively privatization as a trade sale from GSA to the private-sector company. In that, the assumption was made by GSA that the disposal proceeds would be equal to net book value. We felt that a more appropriate number would be to include or to take into account the franchise value of the business, to basically say, is there something that a private-sector firm would be willing to pay in good will because of all the business that is there?

GSA had sort of arguments on that issue relating to the ability of agencies to terminate the leases overnight if they wanted to. Any agency who leases a car through IFMS is able to turn around the following day and say, “We do not want the car anymore; here, have it back” with no penalty. And that is not standard private-sector practice; and they have argued that, therefore, there is no value. But there is no certainty in life for any revenues for any business. And so we felt that there might be a franchise value. We were unable, as a part of the study, to—

Mr. HORN. You felt there might be a franchise value, but did you ever estimate it at all?

Mr. JONES. The study which would have to be undertaken to come up with the value of what the franchise value might be was really not a part of the scope of this study. However, we did do some initial calculations which indicated there might be a positive franchise value.

Mr. HORN. My last question, really, on this gets down to your comparison with other fleets within the Government in other agencies compared to GSA; was that comparison made at all?

Mr. JONES. Yes. I cannot remember the full title. There is a Federal Motor Vehicle Fleet Report, I think is the name of it, which contains the costs of the other Government agencies. They report back to GSA as a part of GSA's oversight what their costs are. We use that, although some of the costs in there are obviously not right—I cannot remember the exact detail, but there are agencies

out there who, I think, operate their vehicle fleets on a 2-cents-a-mile basis if the report is to be believed.

So we took a median rather than an average of the numbers. We took a number right in the middle and used that as a basis for comparing the costs of the Government to the costs of GSA, and it clearly showed that GSA was one, if not the most, efficient full-service vehicle providers within Government.

Mr. HORN. Well, was that simply because of their tremendous acquisition discount, where the others do not have that?

Mr. JONES. No, because all the other Government agencies buy from the automotive center as well as GSA. The fleet operations that—we ended up looking at it in two parts. There is the automotive center, which is a part of the Federal Supply Service and part of the acquisition arm of GSA, and then there is the inter-agency fleet management system itself which buys vehicles from the automotive center. The rest of Government also buys their vehicles, most of their vehicles from the automotive center as well, so the purchasing advantage is uniform across the other agencies, so the efficiencies ought to be in the maintenance and repair functions—

Mr. HORN. Sure. Just one last thing on what you said. You mentioned fleet value. Did we estimate the figure of that fleet value on the calculations?

Mr. JONES. The net book value of the fleet or the franchise value?

Mr. HORN. Well, I mentioned franchise value, and let us talk about both at this point, then. You have the net value of the fleet and you mentioned you really did not have the franchise value. Right?

Mr. JONES. No. The net book value of the fleet at the time we did the study was, I think, about \$1.2 billion. The franchise value—

Mr. HORN. Was that simply acquisition cost that based that value—

Mr. JONES. I think that was net book value.

Mr. HORN. Was there a depreciation value?

Mr. JONES. Yes.

Mr. HORN. There was?

Mr. JONES. Yes.

Mr. HORN. OK. And what did it just follow, the Blue Book depreciation, or what did you use as a rule of thumb here?

Mr. JONES. I cannot remember the exact figure we used for depreciation. I can get that to you.

Mr. HORN. Well, let us file it for the record. Mr. Kanjorski, do you have some more questions?

Well, we thank you both very much for coming. Your study is very helpful, and we would like to be chatting with you in the future as we try to sort out some of these things, but thank you very much for coming and testifying today. I am sorry you had to wait through a few votes, but that is life around here. Thank you. We now go to our last panel.

And panel four, Mr. Chris Butterworth, the president of the National Association of State Agencies for Surplus Properties, and Mr.

**Bill Wilson, the vice president of the National Association of State Agencies for Surplus Properties.**

[Witnesses sworn.]

**Mr. HORN.** Both witnesses have affirmed. On my list it has Mr. Butterworth first, as president, which seems fitting, and we will let you begin. And your statement, as you know, is automatically in the record now; so let us talk about it, and then we will get to questions.

**STATEMENT OF CHRIS BUTTERWORTH, PRESIDENT, NATIONAL ASSOCIATION OF STATE AGENCIES FOR SURPLUS PROPERTIES, ACCOMPANIED BY BILL WILSON, VICE PRESIDENT, NATIONAL ASSOCIATION OF STATE AGENCIES FOR SURPLUS PROPERTIES**

**Mr. BUTTERWORTH.** Yes, sir. Let us summarize, Mr. Chairman. On behalf of the 56 State agencies for surplus property, thank you for allowing the State agencies to be represented before your committee today.

For the calendar year ended December 31, 1995, Federal surplus donated to eligible entities in the States totaled over \$602 million as the Federal Government's original acquisition cost. This property went to support public programs all over the Nation through the State agencies for surplus property. Every State could provide endless examples of Federal surplus property that have saved dollars, that has encouraged innovation, and that has made a difference. This program enables public agencies, private and non-profit health and educational organizations, and organizations that assist the homeless to acquire Federal surplus for reutilization, saving tax dollars and providing equipment to entities that otherwise would have to go without.

The SASP's, State agencies for surplus property, help State and local governments save tax dollars by extending the useful life of equipment and supplies that would otherwise be sold on the open market. Most SASP's are nonappropriated programs in their States. To support the costs of their operations, they assess a nominal service charge on the property that covers the cost of administering the program. By Federal regulation, these funds can only be used for direct and indirect operating costs.

The National Association of State Agencies for Surplus Properties also operates with GSA oversight and oversees a screening program which screens equipment in Europe, Central America, and the Far East for acquisition by the States to participate in this program. Congress, of course, as you know, has sole authority over the disposition of Federal property. In the exercise of this authority, Congress has passed laws establishing policies to serve the best interests of the taxpayers. These laws should be based on the premise that the public is actual owner of Government property and that Federal agencies which hold and utilize it are merely acting as public custodians.

Federal agencies, particularly DRMS, have sometimes confused this stewardship with ownership, resulting in the application of various ways of transmitting unneeded property into cash for purposes which are not specifically authorized by statute.

Fragmentation of disposal authorities has occurred in four different ways. First, over the past 10 years some special interest groups have successfully lobbied for legislation that establishes for them a priority to Federal excess and surplus property. The net effect of all these legislative actions is to erode and disrupt fair and equitable distribution.

Second, the authorities for the disposition of Federal property are being shifted from GSA oversight to the Department of Defense. Recent years have seen DRMS shift emphasis from reutilization and donation to sales.

I have submitted for the record a national association newsletter in which I would refer you to page 9 for an article by the former Humanitarian Assistance Program European director that illustrates some of the inefficiencies and abuses in the program.

Mr. HORN. Put that in the record at this point. Is that part of your testimony? I do not have it here, or did you submit it in advance?

Mr. BUTTERWORTH. Yes, we submitted it in advance.

Mr. HORN. OK. We will put it in the record at this point. Thank you.

Mr. BUTTERWORTH. Third, recent Executive orders have given priorities to a variety of organizations; and, fourth, there are non-DOD screening priorities that also fragments disposal authority. Priority seeking efforts that have passed re-create a mechanism already in place to assist entities serving a public purpose. If some action is not taken to eliminate this duplication of effort, thousands of taxpayer dollars will be wasted. Those agencies who need the property most will not get it because there is no standard of fairness in distribution.

The negative effects of this fragmentation of authority leads the national association to make two recommendations, the most important of which is for Congress to take excess and surplus property out of the foreign and domestic welfare arena and return it to the sensible, fair disposition process that Public Law 94-519 established. In doing so, tax-supported domestic needs can be met first and then foreign humanitarian efforts.

H.R. 1882 represents a major step toward reestablishing the donation program, empowering the States to serve all cities and counties, and certain private, nonprofit organizations, reducing the existing duplication of effort. The national association is open to compromise language in H.R. 1882 concerning priorities created for law enforcement in section 1208 of the National Defense Authorization Act.

Regarding H.R. 1882, the national association makes the following two recommendations. No. 1, we recommend that the bill include a charge to the administrator of the General Services Administration to review all statutes related to the disposal of excess and surplus Federal property. And, No. 2, we recommend the bill call for a special commission to be formed in Congress to integrate and consolidate all programs to be administered by GSA, working with State agencies while accomplishing the purpose of such programs.

In conclusion, the State agencies for surplus property are concerned about the effect each instance of created priority has on accountability and fair and equitable distribution. The Federal sur-

plus property donation program, as administered by the States and overseen by GSA, is about saving taxpayer dollars. Once property has been declared surplus to the needs of the Federal Government, the highest and best secondary utilization is by public and private organizations of this Nation that are dedicated to the education, training, health, civil protection, safety, and other public benefits of our people.

The State agencies for surplus property are in the best position to get the property into use by the highest number of these organizations. We would invite you and the subcommittee staffers to attend the annual meeting of the SASP's in Rapid City, SD in August. This would provide you with an opportunity to discuss face to face the challenges and the needs facing donation program directors. Thank you.

[The prepared statement of Mr. Butterworth follows:]

# SURPLUS MAKES SENSE



## Message From The President

As you will see from this newsletter, SASPs are busy doing what they do best - saving property for continued utilization. Many of the Directors of SASPs across the country are also taking an active role in attempting to make the program better, improving the flow of property to the states, and correcting the priority problems that have been created by Congress.

Electronic screening is going to be a real part of how SASPs conduct business in the near future. SASPs are getting geared up to be able to take advantage of this technology. It is available now but improvements are being made by the Defense Reutilization and Marketing Service (DRMS) and the U.S. General Services Administration (USGSA). NASASP Inc. has called upon these federal agencies to "marry" their two systems together to make them, not only user friendly, but also efficient and dependable. While electronic screening may not ever totally replace physical screening, it will be an aid to managers in their screening decisions.

Organizations who utilize the SASPs as a source of supply in their purchasing decisions are the lifeblood of the program. Elsewhere in this publication you will find information about our annual National Donee Awareness Week. We want to honor and recognize our customers and thank them for participating in the Federal Surplus Property Donation Program. In honoring, recognizing and thanking the "donees", we want to entreat their continued support. We want them to formalize their support by joining the SASPs in the National Association of State Agencies for Surplus Property. Found herein is an invitation to join NASASP, Inc. as an Associate Member. All donee organizations are encouraged to join forces with the SASPs in improving, reforming and perpetuating this program that saves millions in tax dollars every year.

Please pay particular attention to the Legislative and Overseas Committee reports in this newsletter. Exciting things are happening in the Overseas Program as it has expanded into areas worldwide that provide additional resources for the SASPs to find reusable equipment for their customers. The Legislative Committee has been establishing a coalition with law enforcement that protects their interests in and priority to DOD excess as established by Congress for drug interdiction efforts and protects the interest of Donation Program customers.

SURPLUS MAKES SENSE IS  
PUBLISHED QUARTERLY BY  
THE NATIONAL ASSOCIATION  
OF STATE AGENCIES FOR  
SURPLUS PROPERTY

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To Be Announced  
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Mike Kuckenmeister, NV

**Message From The President. Continued**

An example of the kind of activity that NASASP and the Associate Members should be concerned about is with the Department of Energy (DOE). DOE is campaigning to exempt itself from the requirements of the Federal Property Act and the Federal Property Management Regulations. They desire to sell their excess/surplus property on the open market rather than make it available to federal agencies, state/county/city agencies, or private/nonprofit organizations that serve a public purpose. Figures published by DOE's Richland (WA) Operations Center prove that the Federal Property Program has significant tax-dollar-saving impact on federal agencies and customers of the SASPs in that area. They have determined that an average of \$4,913,900 in property at original acquisition cost has been transferred to other federal agencies and SASPs annually over the last three years. This is nearly \$15 million dollars of property bought with tax dollars over a three year period that has been reutilized in other tax supported programs or programs that serve a public purpose! These numbers are from just one DOE facility! All users of federal excess and surplus property should be highly concerned about this effort by DOE. Representatives in Congress should be told about the absurdity of this idea. Approval will have to be granted by the U. S. General Services Administration; they must be encouraged to deny this request. NASASP will do its part but we need donee organizations to oppose this effort as well.

There is a seemingly never-ending line of organizations and individuals who would initiate efforts to bypass the methodology in place to extend and save tax dollars through the reutilization of Federal excess and surplus property. Help us maintain the integrity of the system by eliminating unnecessary priorities and programs that do not serve the domestic needs for equipment and supplies first.

Chris Butterworth, President, NASASP, Inc.

## KANSAS

The Kansas Cosmosphere and Space Center received a CRANE from the Kansas Director of Surplus Property, Paul Schwartz. The photo below shows the crane being used to lift the actual Apollo 13 Command Module "Odyssey" from its shipping crate. The Cosmosphere and Space Center will soon begin to restore the Apollo 13 module. Without this Federal Surplus Property Crane, that would be a challenging task.



## NOTES FROM THE OVERSEAS COMMITTEE....

Scott Pepperman, Chairman

The Overseas Committee is dedicated to maximizing the number of shipments from around the world, shipping property of the highest quality available, and constantly minimizing cost. With these goals to guide us, 142 total shipments from overseas totaling over \$13 million have been completed in the first quarter of 1996, making this the busiest three month period ever. This represents many heavy equipment items, vehicles and container loads of usable property. The Overseas Program is a team effort consisting of close coordination among the Committee members, The Overseas Facilitators - Woody and Cheryl, the Overseas Screeners, The GSA Regions and the worldwide DRMOs. If you have any questions, concerns or suggestions on how to improve the Program, please communicate them by contacting me or any member of the committee. The Committee is currently working on several items of interest to the membership including the following:

- Developing a second broker, Aries freight, Inc. to provide a competitive atmosphere and hopefully some better prices around the world. Aries will be tested immediately as we will be using them to ship from Okinawa, a location where Kuehne and Nagel are not present.
- Developing insurance policies to protect the State Agencies from loss due to damage during shipping. This would include partial as well as total destruction.
- Developing a generic form to be used by all of the members to provide feedback to the worldwide DRMOs after a shipment is received at your Agency. We must do a better job of closing this loop and I need everyone's cooperation.
- Receiving property from Guantanamo Bay, Cuba, at the best price available. It appears that Aries may be a big help to us at this location as well.
- Revising allocation lists to pare them down from nine to three, worldwide. Also, the contact list for all members, the committee, and our Overseas screeners is being revised. Expect to see copies of both very soon. The new allocation lists will go into effect on April 1, 1996. Thanks for all your input. Now a trip and update from around the world.....

**PACIFIC.** Our screener, Randy Main has been so busy screening and shipping from Okinawa, Sagami, and Misawa, Japan along with the three DRMOs in Korea, he has hired an assistant. Welcome aboard to Corey Adrian in Okinawa. Guam and Hawaii are still locations that are being considered for trail screening.

**EUROPE.** Like the Energizer Bunny, Bobby Smith just keeps on going and going in Germany, Holland, and Belgium. Many high quality vehicles and construction equipment continue to be shipped from Central Europe. We have a new screener in England-farewell to George Kluth and welcome aboard to Loyd Owens. In southern Europe, Harry Blanks is now looking beyond Italy at Crete. Hungary, with its Bosnia logistics support base, is next on the horizon.

**CENTRAL AMERICA AND CARIBBEAN.** We hired a new screener, Dino Scott, in Panama. Dino is a 1st LT. in the U.S. Army Reserves, has great logistics expertise and is fluent in Spanish. We have established very cooperative relationships with the new DRMO Chief in Panama and the surplus property chief at the Panama Canal Commission.

**THANKS** to everyone on the team for an outstanding start to what certainly will be the busiest and perhaps most important year ever for the Overseas Program.

# MONTANA

GALLATIN FIELD  
 Owned and Operated by  
 Gallatin Airport Authority  
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 Telephone 406 388-6632  
 FAX 406-388-6634

Mr. Mike McMahon, Bureau Chief  
 Department of Administration  
 Property & Supply Bureau  
 P.O. Box 200137  
 Helena, MT 59620-0137



Dear Mr. McMahon:

Enclosed please find a picture of our recently completed high speed runway sweeper. You may recall that in it's former life, this truck was an SMI crash truck we obtained from you just over two years ago. While the fire fighting package on the truck was worn out, the cab and chassis were in good condition. The sixteen foot sweeper head and the Caterpillar pump engine also came from your lot. While a new truck of this type costs approximately \$220,000 we have just over \$42,000 invested in this unit. The construction of the unit was done as a fill-in project by our airport maintenance staff and it works very well.

I am sure that you will agree that this was a good way to recycle this surplus equipment and save many tax dollars in the process.

I just wanted to take this opportunity to thank you and your staff for all your help and good service. We appreciate your efforts.

We are always on the lookout for good heavy duty snow removal and fire fighting vehicles. Please keep us in mind if you get any of this equipment in the lot.

Sincerely  
 Ted Mathis  
 Airport Manager

## LEGISLATION

The National Association of State Agencies for Surplus Property (NASASP) working with Congress has had legislation introduced in both the House and Senate which will enable the states to get more of our federal equipment into the state agencies for the eligible agencies to acquire.

The pending legislation includes:

HR 1882 introduced by Congressman Colin Peterson of Minnesota (staff contact is Ms. Heather Westland at (202) 225-2165)

S.771 introduced by Senator David Pryor of Arkansas (staff contact is Mr. Rick Goodman at (202) 224-4551).

These bills will eliminate the priority status of certain special interest programs and makes a major step toward returning the surplus property law to its original intent. There are organizations that will be against this legislation for their own benefits. Do not let their rhetoric dismay you. For copies of this legislation contact the staffers listed above or you can find it in the Thomas Registry on the Internet at: <http://thomas.loc.gov>

**THE NASASP NEEDS YOUR HELP!**

Contact your Congressman delegation right away and request that they sign **ON** this important legislation.

Again, these bills take federal property out of foreign and domestic special interests and return it to sensible, fair disposition. Domestic needs, your needs, can be met first with foreign needs addressed second.

Call your Legislators office today!

Bill Wilson, Vice President  
NASASP Legislative Chairman  
(608) 849-2449

## TEXAS

Baytown Fire and Rescue Services received two M55 Kaiser "Deuce and a Half" trucks from the Texas SASP in April and June of 1994. The trucks are used for high water flood rescue. Baytown has 37 miles of coast line. Frequent flooding occurs in the area.

On October 17, 1994, both "deuces" were equipped with high water rescue gear and one was equipped with a 14 foot boat. They were assigned drivers and placed in fire station #1 and #2. Their mission was to respond on first alarm to any fire, rescue or EMS call where high water would likely be encountered. At 4:30 P.M. the town of McNair requested one "deuce" for high water rescue at the King's Colony subdivision. The "deuce" arrived at King's Colony and rescued 12 families. Water was running over the floor boards of the "Deuce", but it performed without problems. During the flood, the second "deuce" responded to eight emergency calls and performed security patrol in the flooded subdivision of Pinehurst.

On October 19th, one of the "deuces" responded to a rescue call on Interstate 10 at Cedar Bayou. Again, the truck was in the water over the floor boards and a boat was tethered to the truck. A successful rescue was performed and the life of a hitchhiker was saved because of the quick response of the Baytown Fire and Rescue service and its surplus property "Deuce and a half" trucks.

These rescues would not have been performed at all if it had not been for the Texas Surplus Property Program. The program not only saves taxpayer dollars, it saves lives.



# PENNSYLVANIA

## Surplus Bus Receives Commission

The Parkland School District's art department recently acquired a bus through the Pennsylvania Federal Surplus Property Program. While a bus for a school district is not an unusual request, it is unusual for the request to come from the art department. But what the district wanted was not a bus, but a space shuttle like project.

The surplus bus became the focus of a six-year project to create a new, interactive learning environment for Parkland School District's students. With help from a variety of Lehigh Valley companies, the district completed the bus-to-shuttle transformation, naming their creation the Blake. The Blake's SAREX radio equipment is a computer-controlled ground-to-space radio system that enables contact with orbiting shuttles, space station or other radio sites on Earth. A shuttle flight simulator offers a pilot and a copilot a panoramic simulation of takeoff, flight and landing, and a Lego robotics station provides hands-on experience for students learning the mechanics of the system. PA SASP also secured pieces of shield from a real space shuttle so that students can see firsthand what the materials truly look and feel like.

Once all of the equipment was installed, the Blake was finally ready to spread her wings for the flight to her commissioning ceremony on Capital Hill June 22, 1995. The ceremony was hosted by Representative Paul McHale who described the shuttle as "a new generation of interactive learning." After her commissioning, the blake stopped in Harrisburg before returning home to Parkland School District.



## A Glimpse at HAP

A Special Feature by "Woody" Carpenter

As the former Humanitarian Assistance Program Director in Europe, I had no idea we were taking property away from the citizens of the USA. Like most logisticians in DOD, I didn't even know the State Agencies for Surplus Property (SASPs) existed.

HAP property in Europe would be transported to our storage facilities and maintenance center in Wuerzburg, Germany. Small items would be cleaned up, sorted, repackaged and warehoused. Vehicles and heavy equipment would be overhauled and rebuilt... like new. When the recipient nation was determined, we would arrange transportation over land and water. I still remember the road graders and dump trucks we rebuilt and shipped to Soviet Georgia and Bosnia. All of these costs, of course, were paid by the U. S. taxpayers.

Under current law, HAP has priority over the States. As a result, the citizens of the USA lose millions of dollars in heavy equipment and vehicles. I recall seeing and reserving the seven giant earth movers in Okinawa last year, in behalf of NASASP. HAP came in and usurped us, taking all seven. Almost a year later, this valuable construction equipment is still in the HAP yard on Okinawa, gathering rust and apparently awaiting some sort of disposition.

The rules need to be reversed now. Surely every lawmaker would place the States and US citizens first, ahead of third world nations if there were a bill introduced with no other strings attached. HAP is a charitable program that contributes usable property to needy nations. I have seen both programs HAP and NASASP - up close. HAP is relatively inefficient and very costly. The United States should, indeed, be charitable. HAP should have access to all property not needed by taxpayer supported programs in the USA.

Logic demands that Federal property already funded by U. S. citizens be recycled and issued for stateside use before it is offered to Russia, the Philippines or Egypt. Surely our representatives in Washington, D.C. would agree with that rationale.

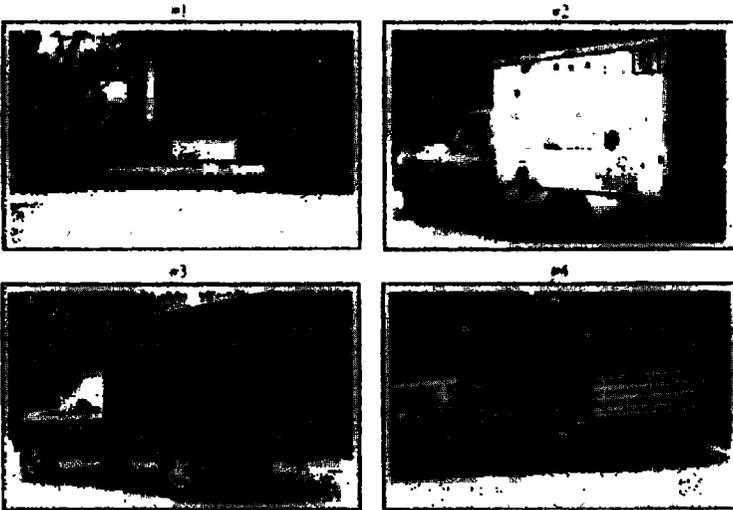
# MARYLAND

## ACADEMY USES FEDERAL VEHICLES TO TEACH AUTOMOTIVE SKILLS

Takoma Academy, a Seventh Day Adventist school located in Takoma Park, Maryland has a very active automotive skills course which teaches students how to repair and convert all kinds of vehicles. The Maryland State Agency for Surplus Property has a long history of close cooperation with Takoma Academy, supplying both Federal and State vehicles for use by its students.

Several examples of the work done at the Academy are shown in the photos. Photo #1 shows a Federal one-and-a-half-ton truck that was converted into a rollback vehicle hauler. Photo #2 and #3 show before and after shots of a military ambulance that was refurbished into a panel truck for use by the Academy. Photo #4 is a particularly interesting piece of equipment, a Man M1013 8X8 10 ton truck/tractor with winch and crane. This truck was custom built for the military by Boeing Defense and Space Group. Takoma Academy modified the vehicle for us as a stake body truck so that a trailer need not be attached.

Mr. John Shadwick, an instructor at Takoma Academy, teaches the Auto Mechanics course to Juniors and Seniors. The course offers a work-study program whereby students can earn money for work they do in the auto shop. The Maryland State Agency is proud to support this fine program.



## Association Members

Associate Members are key players on the Surplus Property Donation Program team. Associate Members are typically people or organizations who receive surplus property (and thereby save much money for the citizens they support) and have a keen interest in the Program. There are a number of benefits in joining the Associate Membership Program. For more information, contact Woody Carpenter, NASASP Program Administrator, at Phone (813) 856-7212 or FAX (813) 857-0196

### ASSOCIATE MEMBERSHIP APPLICATION

NAME \_\_\_\_\_ PHONE (\_\_\_\_) \_\_\_\_\_

ORGANIZATION \_\_\_\_\_ FAX (\_\_\_\_) \_\_\_\_\_

ADDRESS \_\_\_\_\_

ANNUAL MEMBERSHIP DUES: \$25.00

CHECK ENCLOSED

Make Check Payable To: **NASASP**

Mail Check To: **W.D. Carpenter  
NASASP Program Administrator  
14410 Spellman Court  
Spring Hill, FL 34610**

## ITEMS OF INTEREST

- National Donee Awareness Week is May 6 - 10, 1996. State Agency Directors and Personnel, Associate Members and Donee Organizations are encouraged to make this a great success. For more information, contact the SASP in your State.
- Oregon SASP Director, John Ruger, has announced his resignation to move into another position in state government. We shall miss John and wish him the best in his new endeavor.
- As a reminder to SASPs and Associate Members, the NASASP Annual Conference will be August 26-29, 1996, in the Black Hills of South Dakota.



NATIONAL ASSOCIATION OF STATE  
AGENCIES FOR SURPLUS PROPERTY  
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**NATIONAL ASSOCIATION OF STATE AGENCIES FOR SURPLUS PROPERTY**

**Statement to the Subcommittee on Government Management,  
Information and Technology  
May 10, 1996**

**OPPORTUNITIES FOR SAVINGS IN PERSONAL PROPERTY DISPOSAL**

The United States Government and American taxpayers literally own tangible personal property all over the world. Therefore, Federal surplus property is being created and disposed of world-wide. The Federal Property and Administrative Services Act of 1949, as amended enables public agencies and certain private/non-profit organizations to acquire Federal Surplus property on a "donation basis" wherever it is being created. In the exercise of its authority to dispose of and make rules and regulations regarding federally owned surplus personal property, the US Congress has passed laws establishing polices designed to serve the best interests of the taxpayers. Such laws and regulations should be based on the premise that the public is the actual owner of government property and that Federal agencies which hold and utilize it are merely acting as public custodians.

For the calendar year ending December 31, 1995, Federal surplus property donated to eligible entities in the states totaled \$602,790,852 at the Federal government's original acquisition cost. This property went to support public programs all over the nation through the State Agencies for Surplus Property (SASPs).

Some examples of typical property donations that have significant impact on state programs and operations:

**Arizona** - Flowing Wells Fire Department's type 4 6x6 fire truck that saved the 18,000 residents \$142,000.

**Florida** - Escambia County Public Works Department's D-7 Caterpillar Bull Dozer for moving sand displaced from Hurricane Opal.

**Utah** - City of Santa Clara's telephone pole maintenance truck surplused by DOD overseas, saved taxpayers over \$80,000.

**Kansas** - Kansas Cosmosphere and Space Center's crane acquired from Federal surplus. It was used recently to unload the Apollo 13 command Module for restoration.

**Montana** - Gallatin Airport Authority's high speed Runway Sweeper formed out of a former SMI Crash Truck and other Federal surplus items saving over \$170,000 for local citizens.

**Texas** - Baytown Fire and Rescue Services' two M55 Kaiser 2.5 ton trucks used for high water flood rescue.

**Pennsylvania** - Parkland School District Art Department's school bus recently transformed into a space shuttle for interactive learning experiences.

**Wisconsin** - Seven Mile Creek's frontend loader that saved citizens over \$30,000.

Many states participated in Operation Desert Share in 1992 that enabled Donation Program customers to obtain Desert Storm excess food. These food products were transferred to providers of assistance to the homeless, sheriff's departments, school districts, and state correctional facilities. Every state could provide endless examples of Federal surplus property that has saved dollars, encouraged innovation, and made a difference. It is obvious from the examples and the numbers above that this program enables public agencies, private/non-profit health and educational organizations and organizations that assist the homeless to acquire Federal surplus for reutilization saving tax dollars and providing equipment to entities that otherwise would have to go without.

### ROLE OF THE STATE AGENCIES FOR SUPPLUS PROPERTY

The Act establishes the US General Services Administration (GSA) as the overseeing Federal agency for the Federal Surplus Property Donation Program. The Act requires each State to establish a State Agency for Surplus Property (SASP) for the purpose of procuring and distributing, for the benefit of the program's eligible participants, Federal Surplus Property. The SASPs help state and local governments save tax dollars by extending the useful life of equipment and supplies that would otherwise be sold on the open market.

SASPs are located in every state, 5 US territories and the District of Columbia. On a GSA arranged screening schedule, SASPs visit military and civilian agency surplus holding facilities seeking property that is needed by eligible organizations in their states. GSA allocates property to the states. After requisitions for the property are approved, SASPs arrange for transportation of the property back to their distribution centers or directly to the customer.

Property allocated to a state GSA is displayed in most states in a distribution center. Some SASPs have more than one distribution center, depending upon the amount of property available and the size of a state's entitlement. Donee customers visit the distribution centers screening property needed by the organization.

Most SASPs are non-appropriated programs in their states. To support the costs of their operations, they assess a nominal service charge on property that covers the cost of administering the program. By Federal regulation, these funds can only be used for direct and indirect operating costs.

Collectively, the 56 SASPs make up the National Association of State Agencies for Surplus Property (NASASP, Inc.) believing that once property has been declared surplus to the needs of the Federal Government, the highest and best secondary utilization is by public and private organizations of this nation that are dedicated to the education, training, health, civil

protection, safety, and other public benefits of our people. NASASP monitors legislative activity that has an impact on property availability and works closely with GSA in establishing and implementing policy to protect state, federal, and citizens interests in government owned property. NASASP also operates, with GSA oversight, an overseas program which screens equipment in Europe, Central America, and the Far East for acquisition by the SASPs that participate in this program.

#### COSTS/BENEFITS OF THE SCREENING PROCESS

Property that has been properly reported as excess to the General Services Administration is first made available to other Federal agencies (unless a legislatively created priority program has a need). Twenty-one days after Federal screening there is a twenty-one day "Donation Screening". It is during the donation cycle that SASPs may inspect and select property needed in their states. The wide range of condition of used property necessitates physical inspection.

The Defense Logistics Agency (DLA) and the Defense Reutilization and Marketing Service (DRMS) have implemented a process ("Recycling Control Point" – RCP) that calls for electronic screening only for excess "depot stock" property. Promotion of this initiative led NASASP to believe that electronic screening would succeed because this property was to be new or "like-new" items. We have found this not to be the case in many instances.

Electronic screening may have some true benefit in the future to the SASPs. However, currently, GSA and DRMS systems in place are not reliable, are not user friendly, and are cumbersome to use. States attempting to use electronic screening have not been successful in getting useable property into their states as a result of this process.

Physical on-site screening is the only reliable way the SASPs have to ensure they are getting a piece of reusable property. It is the only way we can be reasonably assured that DRMS is not selling property before the states have an opportunity to screen it. Since the taxpayers own the property, it is reasonable that their representatives should be able to see it to determine its potential for reutilization.

Physical screening does cost the SASPs money. The nominal service charges assessed as described earlier are designed to recover these and other administrative costs. Such service charges are averaging approximately 6% of the original acquisition costs nationwide.

#### FRAGMENTATION OF DISPOSAL AUTHORITIES

##### Disposal Authority

Congress has sole authority over the disposition of Federal property pursuant to the provisions of Article IV, section 3, paragraph 2 of the Constitution of the United States. This section of the Constitution states that Congress has the authority to "dispose of and make all needful rules and regulations respecting the territories or other property belonging to the United States."

In the exercise of this authority, Congress has passed laws establishing policies designed to serve the best interests of the taxpayers. These laws are based on the premise that the public is actual owner of Government property and that Federal agencies which hold and utilize it are merely acting as public custodians. Federal holding agencies have sometimes confused this stewardship with ownership, resulting in application of various ways of transmitting unneeded property into cash for purposes which are not specifically authorized by statute.

Congress is the ultimate arbiter in determining the public interest in disposing of Federal property. Enabling legislation determines what methods and which agencies are authorized to accomplish property disposition. Applicable statutes determine when to sell the government's surplus property – usually at a small return of the cost; donate it for public use; destroy it to prevent impairment to industry and employment or to abate a hazard; exchange it in lieu of cash as part payment for needed items; abandon it in certain instances; make it available as contributions to Federal and State cooperative projects such as forestry, soil conservation, roads and airports; make it available for foreign aid programs in lieu of buying new property; donate it to tax-supported and non-profit tax exempt educational and public institutions and organizations, or dispose of it otherwise.

#### History of Fragmentation

In 1977 Congress passed Public Law 94-519. This law basically intended and was designed to consolidate many distribution systems operated by various Federal agencies into one and to restore the effectiveness of the surplus donation program under a single agency concept. Fragmentation of Disposal Authorities has occurred in four significant ways:

First, over the past ten (10) years some special interest groups have successfully lobbied for legislation that establishes for them a priority to Federal excess/surplus property. The net effect of all these legislative actions is to erode the single agency concept and disrupt "fair and equitable" distribution.

Second, the authorities for the disposition of Federal property are being shifted from GSA oversight to the Department of Defense. This is evident in:

- the DoD authority to distribute its excess assets to state and local drug law enforcement activities directly;
- a similar proviso in the Defense Authorization Act of 1992/93 allowing DoD to do the same thing for cities and counties to stimulate economic growth failed to pass;
- DoD expanding the drug interdiction directive to include rehabilitation or as they call it for "demand reduction" including privately operated programs.

Third, recent Executive Orders have given priority to a variety of organizations. For example, Executive Order #12821 signed in 1992 allowed Federal agencies to give excess lab equipment to public schools directly. This Order was recently superseded by Executive Order #12999 expanding the property and recipients that receive property at a priority level.

Fourth, non-DOD priority screening also fragments disposal authority. For example, forestry and service programs, as well as Land Grant Colleges all screen with priority in the Federal excess level.

#### Effects of Fragmentation

While priority-seeking efforts sometimes fail to pass, most such efforts have passed, and in reality, re-create a mechanism already in place to assist entities serving a public purpose. In short, nearly the entire customer base of the Federal Surplus Property Donation Program can now potentially access excess Federal property directly. While this may appear to be good on the surface, what is happening is each special interest group is establishing its own distribution, screening, and transportation systems to serve its members. The costs of this duplicative activity must be recovered from some source. If some action is not taken to eliminate this duplication of effort, thousands of taxpayers' dollars will be wasted. Those agencies who most need the property will not get it, because there is no standard of fairness in distribution.

The SASPs in each state have been doing these functions for many years, as well as insuring fair and equitable distribution. Presently, the entities with resources to screen, transport, and distribute federal assets get the goods, and those entities that cannot afford to do so, and consequently are in the most need, go without.

The negative effects of this fragmentation of authority leads the NASASP to make the following two recommendations:

1. Congress needs to take excess and surplus property out of the foreign and domestic welfare arena and return it to the sensible, fair disposition process that P.L. 94-519 established. In doing so, tax-supported domestic needs can be met first and then foreign humanitarian efforts.
2. The SASP in each state and territory must be given statutory authority to be the single agency responsible for the distribution of Federal excess and surplus assets. Congress should do this nationally.

#### Current Legislative Efforts

HR 1882 represents a major step toward re-establishing the Donation Program, empowering the States to serve all cities, counties and certain private non-profit organizations and reducing the existing duplication of effort.

NASASP is open to compromise language in HR1882 concerning priorities created for law enforcement in Section 1208 of the National Defense Authorization Act. NASASP has met with representatives of the National Sheriff's Association on this issue and recommends language allowing law enforcement continued priority to specific groups and classes of Federal property with major impact on drug interdiction efforts in light of the tremendous challenges facing law enforcement agencies in counter-drug operations. Regarding this current legislation, NASASP makes the following two recommendations:

1. We recommend the Bill include a charge to the Administrator of the General Services Administration to review all statutes related to the disposal of excess and surplus Federal property.
2. We recommend the Bill call for a special commission be formed in Congress to integrate and consolidate all programs to be administered by GSA working with State Agencies while accomplishing the purpose of such programs.

#### Conclusion

The State Agencies for Surplus Property are concerned about the effect each instance of created priority has on accountability and fair/equitable distribution. The Federal Surplus Property Donation Program, as administered by the States and overseen by GSA is about saving taxpayer dollars. Once property has been declared surplus to the needs of the Federal government, the highest and best secondary utilization is by public and private organizations of this nation that are dedicated to the education, training, health, civil protection, safety, and other public benefits of our people. The SASPs are in the best position to get the property into use by the highest number of these organizations.

Mr. HORN. Well, that is a very helpful education of us. I would like at this point in the record your masthead here, which sort of gives us a sense of how you are organized. You are still serving, I take it, as chief of the Bureau of Federal Property Assistance in Florida?

Mr. BUTTERWORTH. Yes, sir. I represent Florida.

Mr. HORN. OK. And, Mr. Wilson, you are vice president as director of Federal property in Wisconsin.

Mr. WILSON. Yes, sir.

Mr. HORN. So, I take it, do those positions rotate by the electing people, or are you there for life like Sukarno of Indonesia?

Mr. WILSON. Thank goodness, no.

Mr. HORN. OK. I have chaired national associations like you are chairing, so you have to hit fast if you have got some reforms because you are out of office pretty fast, too. Well, that is very helpful. And, I take it, do you have any full-time staff at all, or is all of this sort of volunteer work?

Mr. BUTTERWORTH. Yes, sir. We have one full-time staff, actually a half-time staff.

Mr. HORN. And "Surplus Makes Sense" is your basic newsletter, is it?

Mr. BUTTERWORTH. Yes, sir.

Mr. HORN. Very good. Well, I am now going to yield to the committee expert in this area, Mr. Kanjorski, the gentleman from Pennsylvania.

Mr. KANJORSKI. What is the utilization? Do you have a breakdown of the various States? That seems to fluctuate a great deal, depending on who the Governor is and who the administrator is of the surplus property in the State. Who now is the best State in the Union for the acquisition of surplus and excess property?

Mr. BUTTERWORTH. I do not have those figures in front of me. I believe, however, that we would find that traditionally over a period of several years, we would find probably the same group of States being the most active, but that is primarily because, through GSA regulation, they also are entitled to the most property based on their population and other factors that enter into that formula.

Mr. KANJORSKI. In 1986, I recall studying that the Commonwealth of Pennsylvania, I think, was 46 out of 50 States in the Union. I am not sure whether we acquired a million or \$2 million worth of surplus property. And that is what prompted me to make a study of the problem, and I found that although we had all the rights to acquire surplus property, it was not a high priority in Pennsylvania, first, because it was not budgeted; it was self-sustaining on the 6-percent concept; and, second, it established no distribution routes below the State level.

Do you know of any other States in the Union that have gone to the effort of creating either regional depots or mechanisms to move the property from the Federal Government to the State surplus system; and then from the State surplus system, how does that feed out into the municipalities? Does anyone have any unique ideas there? Are any experiments going on in the country that are successful?

Mr. WILSON. I was just going to mention that there are a number of States that have multiple distribution centers. That is usually

based on their geographic size, but as far as going out to a similar concept as you have done in Pennsylvania—is that your question—

Mr. KANJORSKI. Yeah.

Mr. WILSON [continuing]. There has been a number of them who have looked and continue to look at it, but as of this point, they have not officially done that with Federal surplus property. Delaware has done it with their State surplus property.

Mr. KANJORSKI. What seems to be the hangup on the local and municipal level that they do not seem to do that? I found that back in the 1980's we had to set up a mechanism. There was not a process to do it.

Mr. WILSON. The biggest hangup I have seen is the concept of Federal regulations, of the eligible entity and what they can do. We have looked at it in Wisconsin with a multiple-county organization, but there is the need then for each county to log in or tie in with some sort of an agreement in order to accomplish that, which is possibly what you have also done. But then you get the individual counties not being able to come to an agreement as to who is to run it and who is to operate it, and that type of thing.

Mr. KANJORSKI. Do you find, though, that in reality the problem with this stream really ends up after the property gets to the State level, how it is utilized below that level efficiently and effectively?

Mr. WILSON. No, I do not think I can really agree with that. In Wisconsin, which is the one I can specifically address, obviously, I think we have found a good distribution system and getting out to our customer base with the equipment needed, if we can get the equipment. We operate off of a needs-list basis, which most States do. We work with our county officials and city officials in townships, villages.

Mr. KANJORSKI. When you get a request from them, you identify a piece of equipment, and then you ship it to them.

Mr. WILSON. In some cases we do ship it direct, yes.

Mr. KANJORSKI. Do you repair the equipment for them, or is that their responsibility?

Mr. WILSON. We will also bring it into our center and repair if it needs to, yes. In fact, we brought a piece in from Panama that required over \$20,000 worth of repairs, but it was a piece, when it ended up in the community, that saved them over \$50,000. It was a road grader.

Mr. KANJORSKI. You said the problem seems to be the equipment is not available. What is the reason for that?

Mr. WILSON. That goes back to the fragmentation issues. Over the years, as you know, sir, there has been a number of seemingly worthwhile changes in the Federal legislation to enable organizations to access it before the donation program. We could pinpoint each one and talk about each one, but we have seen here in the United States equipment going, being shipped to humanitarian assistance programs overseas, and then we have to go overseas to find equipment and ship it back to the States to fill the needs of our communities.

Mr. KANJORSKI. The humanitarian program; how much equipment does that take out of the full stockpile?

Mr. WILSON. I do not have the exact figures with me, but they are available through—

Mr. KANJORSKI. It is pretty large.

Mr. WILSON. It is huge.

Mr. KANJORSKI. Is it equal to the whole State program or about half of the State program?

Mr. WILSON. Oh, I would say probably two-thirds.

Mr. BUTTERWORTH. I think DOD will probably provide information that shows that the States got more in dollar original-acquisition costs, but they got the cream of the crop as well.

Mr. KANJORSKI. The foreign operations got the cream of the crop.

Mr. WILSON. Yes, sir.

Mr. KANJORSKI. Yes. That was the experience I am seeing. I followed that train, then, and I found a lot of that equipment just abandoned in those countries. I recall a South American country getting hundreds of pieces of equipment, and then we went down there, and it was rotting in the field. We never seem to follow through whether it is utilized or used for the purposes intended.

Mr. BUTTERWORTH. Sir, to follow up on your question, though, I think you will find—and maybe I am misinterpreting it, but I think you will find that several States do have multiple distribution centers that allow them to further and successfully and efficiently distribute the property on down to the State and local levels so that those communities can save dollars.

Mr. KANJORSKI. What we found in Pennsylvania—and I am trying to get my handle on whether we need a multitype of program here—95 percent of Pennsylvania's 1,600 communities are under 5,000 in population, so they have no professional maintenance operation, they have no professional management operation within the community unit itself. And very often, although they may have a need for a piece of equipment, whether it is construction equipment or a vehicle, they do not have a constant need for it.

So very often under the old system a community would make a request, say, for a bulldozer, get it, use it for a month or two, and then not have a real pressing need for it and sort of park it until it rusted away and just wasted. The way we created our program—and the reason we created it is we recognized that lack of maintenance on the small municipal level.

So, ultimately, what we did is really formed a department of public service equipment for many municipalities. I think now we are probably servicing 200 or 300 and State agencies that otherwise only need—well, I will give you a perfect example, a prison system. We have several prisons within the jurisdiction of this center, and they have to change bulbs, and they need a cherry picker. They need that cherry picker once a year to change the bulbs or twice a year.

It is certainly not worth going out and paying \$65,000 or \$75,000 to buy a cherry picker and then park it there. So an agency like that would become a contract member, and in Pennsylvania we now work with the game commission, the forestry service, and all these entities, having this specialty equipment readily available.

And what we have found, of course, is that it is not only that individual that would have qualified to get that equipment and then park it. The many participants in the entitled can, through the

year, use that equipment for 1 week at a time or 2 weeks at a time, and we get a much more optimal level of the use of equipment.

Now, Pennsylvania, of course, is a very fragmented State with small communities. I do not know if Wisconsin suffers from that problem or Florida. I know you have metro government in Florida, so it is an entirely different program.

But for these small States that are still fragmented in their local government makeup, what other system than what we did in Pennsylvania would afford them the opportunity to get involved to locate the equipment, to purchase the equipment, to repair the equipment, to maintain the equipment, to ship the equipment, and to get some reasonable use out of the equipment. What could we go to?

Mr. BUTTERWORTH. I think an example would be the State of Colorado, whose State surplus property program is located in their department of corrections. And as I understand it, they have the ability to acquire pieces of property, put it into a prison rehabilitative industries type program where the prisoners would, for training, refurbish that piece of property, and then it could go out to the local community who needed it.

Mr. KANJORSKI. Who pays for the cost of the repairs and the materials and the supplies that are necessary to do that? Do they do it through the State budget?

Mr. BUTTERWORTH. If we were to do something like that in Florida, the prison industries would invoice me for the costs of doing that, and I would pass that along to the donee; but, of course, the labor costs of doing that would be very, very minimal; so the costs would be less than what they could have it done in the private sector for.

Mr. HORN. Let me just interject 10 seconds here. Mr. Kanjorski can keep questioning. The Chair is leaving to vote on the rule on the Defense Authorization bill, and my two colleagues are welcome to leave any time. We will be in recess after you answer Mr. Kanjorski's questions for a 15 minutes recess.

Mr. KANJORSKI. I know at one time Pennsylvania took a great deal of equipment out of the system because we perfected the method of getting it and handling it and shipping it, and it became very efficient for us. Now that we have closed our system, though, are you still getting the type of equipment available on the State level, or is there still a very tight inventory out there?

Mr. WILSON. It is still a very tight inventory. We are not seeing a large amount of the heavy equipment, although if you look nationally—I guess we have to look at it in two different respects. We are not receiving a lot of it in Wisconsin; however, we do see that type of equipment available nationwide. We get our share, I suspect, of what is available; but the majority of that type of equipment, we are not getting a large number of in my particular State. But I think if we look at it on the national scene, we are seeing the heavy equipment that is coming available.

Mr. KANJORSKI. The problem I seem to have, if we go back to a system where we just allow the State surplus equipment property operation to occur, what kind of obligation do you think the State should undertake to make sure that the property can be put out at the municipal level, repaired, maintained, delivered, and used?

In other words, rather than just leaving you—right now, you are just a conduit, the State system.

Mr. WILSON. That is correct.

Mr. KANJORSKI. And you are not responsible for whether or not there is optimum use of that equipment at the local—

Mr. BUTTERWORTH. Well, to a certain extent we are. GSA and part of their regulations require the State agency for surplus property to ensure that that property is placed into use within a year of acquiring it, that it is used for at least a year beyond that date that they place it in use, and so we do utilization inspections to ensure that that property is used for the purpose for which it was acquired.

Mr. KANJORSKI. But how about efficient and effective use? In other words, there is a big difference. I do not know how many small municipalities could ever repair and replace and maintain a lot of the heavy equipment they will have a need for.

Mr. BUTTERWORTH. Well, it is certainly true that while there is oftentimes equipment out there available, just about as many times as not, we will pass up a piece of equipment because it looks to us, based on our expertise, to be beyond reasonable repair capabilities. So we will only take that property which we feel like can be reasonably placed in use or can be refurbished within a reasonable amount of money. But there are also pieces of equipment out there that are simply scrap condition, but a small community in Florida, a rural county, may have another piece just like it, and they would like to have it for parts to keep that other piece running. So cannibalization is an important part of the program as well.

Mr. KANJORSKI. I understand how the equipment can be used by medium-sized communities because they have the capacity for upkeep and repair. Has anyone done any study as to how this program really gets down to the small, poor, more desperate community, whether there is effective utilization? We did not find it in Pennsylvania. We found that most of our medium- to small-sized communities just were out of the system, never could really use it until we developed a local mechanism for it to handle.

Mr. BUTTERWORTH. I am not aware that that is a difficult or serious a problem in Florida. Our smaller communities and our rural counties are some of our biggest users. They may not get the quantity in dollars by year end, but they have gotten what they needed or they have tried to get what they have needed in order to perform their missions in their counties and their cities.

Mr. WILSON. I would echo that. The smaller communities are not going to go out and get the cherry pickers to change light bulbs, but they would come out and get a front-end loader that they would use year round. In Wisconsin, year round we need to remove snow and/or work in soil, and the front-end loader can do that; road graders, the same. But they would only go out and get those type of items if they were going to be able to utilize because they are not going to invest their dollars into something that is going to sit there.

In that type of situation, if they needed a cherry picker, they would probably rent one or contract to have something done.

[Recess.]

Mr. HORN. Mr. Kanjorski, I believe, finished his questions. I only have a few of them, so we are going to make it by two, I think. I am curious, if it has not been asked, what are the drawbacks, are there, for the direct transfer of property from the agencies to the donees, if you will, the recipients? What are the drawbacks of doing the direct transfer? Do you have any feelings on that?

Mr. BUTTERWORTH. Well, the first thing that comes to my mind about that is accountability. Transferring it directly to the donee—

Mr. HORN. Now, do all States have the kind of setup that Florida and Wisconsin have where there is an agency that worries about this, that even gets things repaired, as I heard your answer, Mr. Wilson? And every State has this?

Mr. BUTTERWORTH. As far as repairing, maybe not. Each State is set up a little differently that way. But GSA does require that in order for a State to receive Federal surplus property, there must be a State agency for surplus property acting on behalf of those donees.

Mr. HORN. But it could be the State GSA, I guess, could it not?

Mr. BUTTERWORTH. Yes. It could be set up anywhere organizationally in the State government.

Mr. HORN. What is the pattern usually? Is it the State general services, or is it a special agency that is created?

Mr. BUTTERWORTH. I would say that the majority of the 56 SASP's are set up in some sort of a general services or management services department.

Mr. HORN. Now, the 56 mean that we include the territories, the Commonwealth of Puerto Rico, and so forth?

Mr. BUTTERWORTH. And the District of Columbia.

Mr. HORN. Well, there is only five of them, so we have got a sixth in here somehow.

Mr. BUTTERWORTH. Yeah, District of Columbia.

Mr. HORN. What?

Mr. BUTTERWORTH. Five territories and one District of Columbia.

Mr. HORN. Well, which of the territories have we got? They are represented in Congress, there are five, as I remember.

Mr. BUTTERWORTH. Puerto Rico, Guam—

Mr. HORN. Right.

Mr. BUTTERWORTH [continuing]. Northern Marianas Islands—

Mr. HORN. That is not represented at Congress, but OK. They deserve all the help they can get out there. I spent a week there looking at their health problems in my civilian life, so I wish you luck.

Let me ask you, since you represent the State governments, why can't law enforcement officers go through State agencies for surplus property?

Mr. BUTTERWORTH. They can.

Mr. HORN. They can?

Mr. BUTTERWORTH. They are an eligible entity within this program.

Mr. WILSON. And they did and they still do.

Mr. HORN. And that includes the local sheriff, which is the county, a creation of the State, and the smaller police departments?

Mr. WILSON. Yes, sir.

Mr. HORN. So there is no problem on them getting surplus property.

Mr. BUTTERWORTH. No, sir. Section 1208 of the Defense Authorization Act gave them a priority to property if they could justify it for use in drug law enforcement efforts.

Mr. HORN. Well, I gather that they are getting surplus property based on that use. I am told, that some of them are getting basketball equipment or something and they can use it at the Boy's Club to keep people out of gangs. But you are saying that they have to have a justification to get in under that drug situation, and it is only supposed to be used for what, getting at drug dealers, drug users?

Mr. BUTTERWORTH. Well, the section 1208 was written very loosely, so the interpretation of it has been wide-ranging across the country. There are four different offices that DOD has established across the country to make those determinations. It has been our experience that those regional offices are wide-ranging in how they interpreted section 1208.

Mr. HORN. But you can also give them surplus property.

Mr. BUTTERWORTH. That is correct.

Mr. HORN. So they have got two basic sources they can get it from.

Mr. BUTTERWORTH. Yes, sir.

Mr. HORN. Your testimony mentioned that certain categories screen property at the Federal excess level. Now, was that the land grant colleges one of them?

Mr. BUTTERWORTH. You are talking about the non-DOD activities would have a priority?

Mr. HORN. Right.

Mr. BUTTERWORTH. The forestries, State forestries, land-grant colleges is one, and your extension, agricultural extension services is another. Those are three examples.

Mr. HORN. And, apparently, foreign law enforcement entities receive surplus property. Does that come under your group of GSA-related agencies, or is it the Department of Defense?

Mr. BUTTERWORTH. Foreign law enforcement?

Mr. HORN. Yes.

Mr. BUTTERWORTH. It does not come under our oversight.

Mr. HORN. It does not come under yours. OK. We need to check on that because I was a little worried when I saw that, if Federal law—I'm sorry—if foreign law enforcement entities get it ahead of local police entities, I have a worry about that, obviously. So we will need to have the staff followup on that.

What have been your experiences with regard to the Defense Reuse and Marketing Service? Have you had any dealings with them?

Mr. WILSON. Substantial.

Mr. HORN. Are there problems with that agency compared to GSA or what?

Mr. BUTTERWORTH. Well, I would estimate that, nationwide, probably about 90 percent of the States' property comes from DOD, which is handled by DRMS. DRMS has in recent years focused their disposal on sales rather than reutilization, transfer, and donation because there was an effort to make their disposal units self-supporting.

Mr. HORN. So if you go to them, you have got to pay something for it.

Mr. BUTTERWORTH. No, sir. We still get it with no charge, but it has been our experience over the last several years that there has been more emphasis on sales than on reutilization and donation.

Mr. HORN. Well, tell me how that works. After the Federal agencies say we do not need it, don't you have the next priority?

Mr. BUTTERWORTH. Yes, sir.

Mr. HORN. Well, then, how can they sell it if you want it?

Mr. WILSON. If we can find it, then we can submit for it.

Mr. HORN. OK. The staff advises me they can hide the property.

Mr. WILSON. Yes.

Mr. HORN. Do they play such dirty tricks on their fellow governmental officials?

Mr. WILSON. Right. I can give you an example that I can personally relate to. There were some aircraft engines located down at Kelly Air Force Base that we had been getting at other parts of the country and bringing in and they were being used in our technology colleges for their training programs. We were getting them one here, two there.

There were 20-some or 30-some of them—I cannot remember the exact number, but they were listed on the Internet where we found them by DRMS. There is D-Mil Code D, which means that they have to be mutilated. They cannot be used; they will be scrapped. And they have to be mutilated and therefore could not go into a training program or vocational education.

So I started to challenge the D-Mil code, and the next thing I know I find it listed on a sales listing by DRMS. Now, they are listed on D-Mil Code B, which means nothing has to be done to that, they are available for sale as an aircraft engine.

Mr. HORN. Why did they have to be mutilated? Did they want to sell them to scrap dealers?

Mr. WILSON. If they list them in that condition code, they basically would bypass or at least get through the screening process because nobody would screen them because they would have to be mutilated. But then they were upgraded to a D-Mil Code B, which means they were fine as they sat for utilization, and then they could sell them with records, and it had, I guess, a fairly high return to them. But, in the meantime, it bypassed the screening. So that is a way that they can hide or displace equipment during the screening process.

Mr. HORN. In terms of that land-grant colleges, is it strictly land-grant colleges, or is it all public universities and all public and private universities?

Mr. BUTTERWORTH. No, strictly the land-grant colleges.

Mr. HORN. Unbelievable. I realize they have a high-powered lobby here, but that is interesting. Let me see. Have you experienced any changes in the way the Defense Reuse and Marketing Service has operated since that particular incident? For example, if enough of you complained, did they change their way of doing business?

Mr. BUTTERWORTH. Well, as a matter of fact, just within the last few weeks, DMRS issued an initiative to limit our ability to screen property located at the DRMO's in the interest of security, inven-

tory control, introduced an initiative to require that when we go screen at a DRMO, we be escorted through those facilities. This was in reaction apparently to an inventory shortfall. So our experiences with DRMS recently have not been positive.

The Federal Property Act and the regulations as approved and set in place by GSA specifically allow us a 21-day donation cycle screening period; and by limiting that screening period to 1 day, is in opposition to the regulations as established by GSA.

Mr. HORN. Is there any law in that, do you know, that they must have at least 21 days? Is that in the statute anywhere?

Mr. BUTTERWORTH. That is in GSA's—

Mr. HORN. Well, that is their regulations, but hopefully they base it on law, but "hopefully" is sort of question mark, underlined, exclamation point, and so forth, as to whether agencies ever do read the law sometimes before they draft their regulations, or they read it and do what they want.

Mr. BUTTERWORTH. I believe it is in the Federal property management regulations that allow that screening period.

Mr. HORN. Well, we need to take a look at that. You think 21 days is sort of a fair time, then, I take it, to review all this without depriving anybody of anything.

Mr. BUTTERWORTH. There is a 21-day Federal cycle, and then there is a 21-day donation cycle.

Mr. HORN. Now, how do you learn about their possible surplus? Do they have to post that in the Federal register, or how do they communicate with the world that, they have surplus property?

Mr. BUTTERWORTH. No. We just show up at the DRMO on a regular rotating, once-a-month schedule to see what they have. Now, they have posted this information into an electronic screening process, but those processes are not reliable at this point.

Mr. HORN. Why not?

Mr. BUTTERWORTH. First of all, in order to actually see a piece of property in your State from an electronic screening process, you have to first find that piece of property in a DRMS electronic-screening system, then come out of that screening system over to the GSA screening system and tag it or freeze it. And right now those two systems do not communicate with each other, so it is very difficult to know whether the piece of property you sell on one is actually available. In most instances, it is not.

As a matter of fact, I think the written testimony says that there has really not been a State yet to actually see property in their State as a result of electronic screening. And even if we did, even if it was reliable, it does not tell us anything about the condition of the property. And since we are the end users or we represent the end users, we are going to have to go out there and kick the tires.

Mr. HORN. How do you let GSA or the defense group know that you are interested in the property? Do you simply go there personally after you have screened the equipment, or when you see it on a videotape—and I mentioned that earlier, did they put it on Internet or whatever—can you simply send them an e-mail or fax them or whatever? What is the usual process here for making a connection that you have got an interest in that and maybe Wisconsin has an interest so they know what is out there?

Mr. BUTTERWORTH. Well, let us take, for instance, an actual screening that takes place at Jacksonville Naval Air Station. When we go to Jacksonville to screen property at the DRMO, there is generally eight States that do what we do that are all there together. We walk through that facility, using a screening list generally that is provided to us by the DRMO. They are supposed to provide us with a screening list—that does not always happen.

Our screeners will walk through those facilities and look at the property, and if we see a piece of property that we want, we tag it for our State. If there is more than one State that wants the same piece of property, GSA is charged with determining who they are going to allocate that property to.

Mr. HORN. Interesting. The staff has just handed me the Federal Property Management Regulations. Here is the regulation, section 101-44.109: "Donation Screening Period: [a] a period of 21 calendar days following the surplus release date, see 10143.001-32, shall be provided to set aside surplus reportable and nonreportable property determined to be usable and necessary for donation purposes in accordance with the provisions of," and so forth. The word is "shall," not "may." They have no choice; it has got to be up for 21 days.

Mr. BUTTERWORTH. And I might say, after that initiative went out to test limiting our screening ability at four different sites around the United States and that word got to GSA, it was quickly rescinded.

Mr. HORN. And they have not done it since?

Mr. WILSON. They have not done it yet.

Mr. BUTTERWORTH. They have not done it yet.

Mr. HORN. I see. OK.

Mr. BUTTERWORTH. They want to talk about it.

Mr. HORN. OK. That was a proposed situation. Well, speaking of GSA, you sat through the testimony this morning, I take it. Do you have any feelings about what you heard, and would you like to respond to anything they had to say when it got to your areas of interest?

Mr. WILSON. I guess the only thing I thought of while they were talking about their FEDS system, which they are fairly proud of, and they should be because it is a system that they developed and set up for screening purposes, it is—we find it very cumbersome. It is not very user friendly. And, again—

Mr. HORN. How do you access that system?

Mr. WILSON. We access it by—we were calling into a regional office and accessing it. It is a mainframe system in Fort Worth that we have to eventually access, but we were doing it through the regional offices. Now, we have an 800-number that we can call.

But it was very cumbersome, as I said, and it is not as user friendly as most people would like to see.

Mr. HORN. Well, let me ask you, would a Web site on the Internet help in this area?

Mr. WILSON. Absolutely.

Mr. HORN. Somebody mentioned they were doing that.

Mr. WILSON. They are working toward that, and that should help dramatically. DRMS has a Web site, but the two do not interact, and if we find it, as Chris said, if you find it on that Web site, you then have to log out of that, log into fed's, and try and locate it

there. And very few people have been successful in doing so because the information is just not being passed through.

Mr. HORN. You mentioned the regional offices. It reminds me of the regional equipment centers. Why can't the property for the regional equipment centers be funneled through the State agencies? Is there a reason?

Mr. BUTTERWORTH. I don't think that there is a—there may be a reason statutorily because we are charged with donating the property, but I believe that the State agencies for surplus property could operate that if it was within the purview or within the limitations of the law. We certainly could provide that service.

Mr. WILSON. The regulations will not allow our donees to lease, lend or otherwise encumber property while it is under restriction. So if they acquired equipment from us to put into an equipment center to lease to other communities, it is a technicality, but it is there that they cannot lease, lend, or otherwise encumber that equipment.

Mr. HORN. They cannot even lease to other Government agencies?

Mr. BUTTERWORTH. Until that is clarified.

Mr. HORN. Well, that is one for the notes. We need to clarify that in the Reauthorization Act. I am wondering—you heard about the experiment going on in Pennsylvania.

Mr. BUTTERWORTH. Yes.

Mr. WILSON. Yes.

Mr. HORN. Is that a good idea or a bad idea, as far as you are concerned?

Mr. WILSON. There is not enough equipment coming available to set up those equipment centers all over the country. Congressman Kanjorski, when he set up his equipment center, it was on a DOD level; it was not on a surplus-property level. So he was getting the property right off the top out of the pipeline. He also got funds to set it up, appropriations to set the center up also.

So to say, you know, can we do this in other States, well, sure, if the Congress wants to appropriate the money to set up the equipment centers and if they have got it at the DOD level, there is a good chance that you could set up a number of equipment centers across the United States, but I don't think you could set up one in every State; I just do not think there is enough equipment.

Mr. HORN. Well, should it be set up on a regional basis at all? In other words, I grant you, California, you would need one in southern California, one in northern, and Arizona or Nevada might come over there, whatever; and Oregon, you might need one in Seattle or someplace for Alaska, Oregon, and Washington. But the east, you have got smaller States. Would that be a smart idea or a stupid idea? I am not committed to either one.

Mr. BUTTERWORTH. I think that if the State agencies for surplus property could do it, it would be a good idea. But from our experience in Florida, our donees, they want that property. They do not want to have to give it back; they want it; they want title to it; they want to be able to fix it up, clean it up. A bulldozer for a rural county that has 200 or 300 miles worth of dirt roads or a grader, they do not need it to bring it back; they need it daily.

Mr. HORN. I noticed in your "Surplus Makes Sense" memo that you put out you had some great examples there of fire trucks, such as Gallatin Field, they have a fire truck that, let us see, this type costs approximately \$220,000, and we have just over \$42,000 invested in that unit. So that is a pretty good deal if they can fix it up.

Now, what do you think is a reasonable period for surplus property to be held before the county, State, whatever entity, has the ability to either sell it or I mean, junk it if there is something wrong with it. Obviously; but if it is still in fair condition, but there is a new, more modern one out there, then what do they have to do under current law, turn that back to the Federal Government, junk it, or can they sell it?

Mr. BUTTERWORTH. The Federal regulation in the FDR requires that they place it in use within 12 months, and they have to use it for at least 12 months. Most State agencies will require that there be another minimum 6 months' additional period of time before unconditional title would pass to the receiving organization.

Mr. HORN. So after 18 months, you can pass title.

Mr. BUTTERWORTH. On vehicles and heavy equipment, anything with a \$5,000 or more original acquisition cost.

Mr. HORN. OK. Is that the only limit? What about the less than \$5,000?

Mr. BUTTERWORTH. It has the 12-month—

Mr. HORN. Twelve months.

Mr. BUTTERWORTH [continuing]. After it is placed in use.

Mr. HORN. OK. Are there any other restrictions? Are you saying the State and the local entity could sell the equipment, lease it, whatever, or they cannot lease it still?

Mr. BUTTERWORTH. After the 12 months, or after the period of restriction has expired, they can do with it whatever—

Mr. HORN. OK. They could lease it, then.

Mr. BUTTERWORTH. Yes.

Mr. HORN. So somebody could set up a nice, little surplus equipment empire and lease it to their cities or special districts or whatever to recoup their costs.

Mr. BUTTERWORTH. Absolutely.

Mr. HORN. OK. Well, do you see anything else in the law that ought to be changed or in the regulations that ought to be changed, from your standpoint?

Mr. BUTTERWORTH. Well, we are—we feel like we are a very overregulated program, from start to finish.

Mr. HORN. Well, where is the overregulation, then? Let me get an example of some of them; and, by the way, I will keep the record open for you for a week to file a letter when you go home and think about it on the plane.

Mr. BUTTERWORTH. OK.

Mr. HORN. I would just like a list, from your standpoint, where is the overregulation, what would you like to see changed—it does not mean we are going to automatically change it; you never know around here; the place runs by a majority; that is a dangerous thing in a democracy. Tell us what your feelings are on that, but give us a bird's eye view now.

Mr. BUTTERWORTH. Well, we are reviewed every 2 years by a GSA reviewer who comes into our programs and looks to see if we are operating our programs in accordance with our State plans of operation, which have originally been approved by GSA. Also, we are audited annually. In most States we are audited annually by a State auditor, who is auditing us under the requirements of the Single Audit Act, and so that puts auditors in our programs almost full time.

Our eligibility files are looked at to determine whether or not a sheriff's department, for instance, is a public agency; and if we do not have evidence of a State statute creating that sheriff's department, then we are told that we do not have the proper documentation in the file to show that that is a public agency.

Mr. HORN. Every governmental unit is a creature of the State, for heaven's sake. Did they ever go to high school or study civics or the Constitution or whatever? So how do you solve that problem?

Mr. BUTTERWORTH. Well, we then have to respond to that as if it were an audit and get that proper documentation into our file before they will release that issue.

The 12-month restriction period, I think, is too cumbersome in some instances. If you are looking at just supplies that have an original acquisition cost of just a few dollars and they have to document to us, or if we were to check, we have to show that they have actually placed that property in use or that they have expended it.

Mr. HORN. So, consumables, if you will, have the same rules there?

Mr. WILSON. No. Consumables, as such. Paint, I mean, once it is used, how do you account for it?

Mr. HORN. How do you show you used it?

Mr. WILSON. Exactly. So consumables are just that: They are consumed. But there are things of low-dollar value, a power drill or something like that, which would be still held under that restriction.

Mr. HORN. Well, anyhow, file the rest of it for the record. We do thank you both very much for coming, because you bring us a unique perspective of somebody who is a governmental administrator who also sees how the process works out there where is what counts if we get this implemented as broadly as we can.

Let me just thank the staff that arranged this effort on both the majority staff and the minority staff: J. Russell George, our staff director and counsel, who can find those things in the Federal Property Regulations, I take, rather rapidly—that was Miles—OK—well, Miles, we will give him the credit in a minute; Mark Brasher, who sits to my left, a professional staff member in charge of this hearing; Andrew Richardson, a committee clerk, against the wall back there, who works on all hearings; and Susan Marshall, our procurement specialist, who was here—I do not know if she is here now.

And then we thank you, Miles Romney, counsel, for finding that when we needed it on the minority staff; and Mark Stephenson, the professional staff member, along with Josh Sabo, the professional staff member; and Barbara Smith, our faithful reporter.

So, with that, this hearing is adjourned.

[Whereupon, at 2:20 p.m., the subcommittee was adjourned.]

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