

DEFENSE BUSINESS BOARD



Best Practices for Real Property Management

April 21, 2016

These are the final briefing slides as approved by the Defense Business Board in its public meeting held on April 21, 2016.

Task Group Agenda

- Introduction
- Bottom Line Up Front
- Observations
- Recommendations
- Final Thoughts/Questions?
- Appendix

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Task Group Terms of Reference

The Department of Defense spends \$30 billion annually to operate and maintain over 562,000 owned and leased facilities in 50 states, 7 US territories, and 40 foreign countries; arguably the largest and most diverse real property portfolio in the world.

*"It is necessary that DoD **optimize** the use of resources and maximize the dollars available to support missions. The Department's real property inventory and management provides **a significant resource opportunity.**"*

Deputy Secretary of Defense Robert O. Work
Real Property Management Terms of Reference

This task group was charged with recommending actions to the Department which could significantly reduce the cost of managing its real property inventory.

Task Group Members

Danny Werfel and Joe Wright, Co-Chairs

Sandy Apgar

Kevin Walker

Col Linda Kotulan, USA, DBB Service Representative

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Task Group Approach

The task group conducted a wide-ranging review of DoD real property management and private sector best practices

- Interviewed over 50 senior officials and experts from within DoD, other government agencies and the private sector
- Compiled and compared best practices from government and private sectors
- Reviewed applicable laws, regulations and policies
- Reviewed prior studies, reports and audits
- Analyzed joint basing as a specific innovation hub

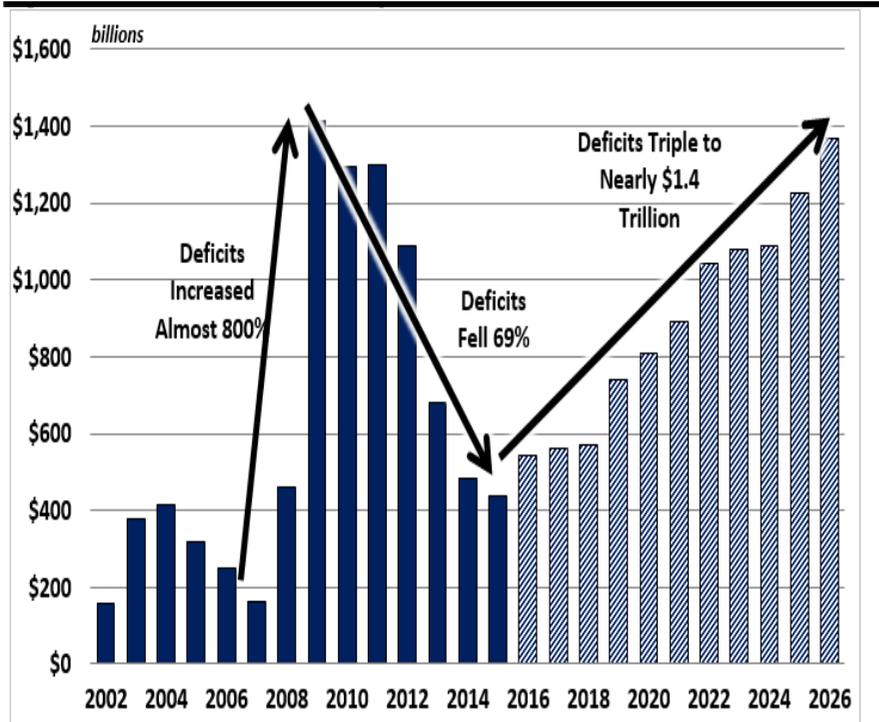
“...reductions in combat power have occurred while the Department’s overhead elements... have exploded”

Senator John McCain
Congressional Hearings, November 17, 2015

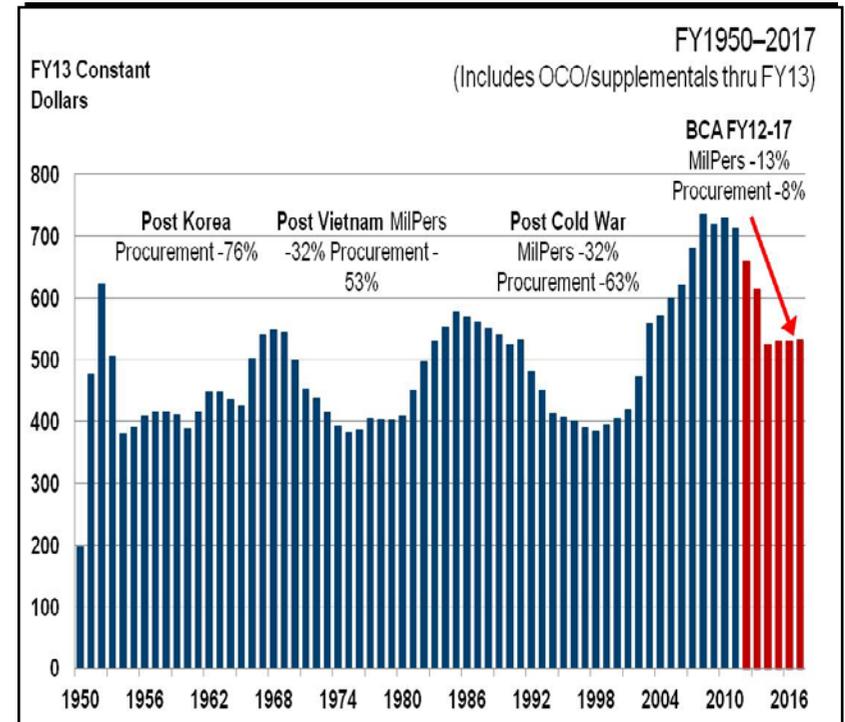


Why is this critical now? *The Budget Challenge*

Increasing constraints in federal budget...



...and declining budgets across DoD



Source: CRBO.org analysis, CBO projections (Jan 2016); FY 2013 Greenbook, table 6-1 "DoD TOA by Title

Overhead costs must be reduced to avoid further erosion of military readiness. Better management of the Department's real property inventory not only improves accountability but may provide savings that are better spent on operational missions.

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What is the situation now? DoD's Real Property Picture

	Buildings		Structures		Linear Structures		Total Facilities	
	#	PRV (\$B)	#	PRV (\$B)	#	PRV (\$B)	#	PRV (\$B)
Army	140,388	\$278.39	81,864	\$50.75	59,363	\$58.96	281,615	\$388.10
Navy	60,357	\$149.22	33,696	\$54.45	16,367	\$35.05	110,420	\$238.72
Air Force	49,471	\$190.05	47,963	\$41.56	30,849	\$65.17	128,283	\$296.78
Marine Co	26,522	\$56.97	17,887	\$8.68	6,120	\$12.13	50,529	\$77.78
WHS	197	\$7.20	418	\$0.15	166	\$0.06	781	\$7.41
DoD	276,935	\$681.83	181,828	\$155.59	112,865	\$171.37	571,628	\$1,008.79

Source: FY15 Base Structure Report PRV: Plant Replacement Value. Cost required to replace facility Building: A roofed and floored facility enclosed by exterior walls and consisting of one or more levels that is suitable for single or multiple functions. Linear structure: facility whose function requires that it traverse land (such as a road, rail line, pipeline, fence, pavement)

- Portfolio is valued at over \$1 trillion and costs \$30 billion annually for maintenance and upkeep, which is spread across all facilities, including unused and obsolete
- Over 3 billion square feet of owned and leased facilities on over 24 million acres
- Air Force has 32% and Army has 33% stateside excess infrastructure; Defense Logistics Agency has 12%

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“...optimize...a significant resource opportunity”

- DSD Robert O. Work, Real Property Management Terms of Reference

- Now is the time to focus on the management of real property to free up funds for readiness
- Senior leaders are reshaping the Department, including organization reduction/consolidation, shared services, delayering, civilian retirements, technology innovation, and redesigning the workplace for the future force in order to realize savings and realign resources for missions
- As millennials make up more of the civilian workforce, private sector companies are rethinking their physical offices to fit millennial employees' preferences for open, collaborative workspaces -- DoD has the opportunity to use these cost effective approaches to its use of facilities, but is currently not well positioned to do so

“The organization that is most similar to DoD in managing facilities is the Catholic Church—they don’t consider this to be their main mission and have decentralized all responsibilities”

Senior Facility manager for Fortune 50 Company

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Bottom Line Up Front - Observations

- DoD's real property portfolio, the world's largest and most diverse, has many facilities that are in poor condition and/or are chronically underutilized
- Private sector best practices are seldom followed and/or shared across the Department, among the Services, or with other federal agencies – benchmarks to private sector are rare
- Real property data collection and reporting is inconsistent
- No enterprise level governance exists at the OSD or Service level to effectively manage these assets
- Disincentives and regulations often inhibit cost-saving initiatives
- Convenience and expediency (rather than cost savings or avoidance) take precedence in real property management decisions, across the Department
- Joint bases are not managed jointly
- Declining budgets and military force reductions highlight the need for a new Base Reduction and Closure (BRAC) to reduce expenditures on excess infrastructure

"We know what to do; we just have to be ordered to do it"

Service Under Secretary

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Bottom Line Up Front - Recommendations

- Adopt a new enterprise-wide governance structure to manage real property assets, to provide clear guidance, priorities, and oversight
 - Implement Department-wide common framework for data collection, benchmarks and reporting
 - Incorporate private sector best practices to enhance real property management
 - Integrate budget/resourcing, personnel, and real property information to enhance real property decision-making
- Establish a centrally managed revolving fund that incentivizes property reconfiguration to maximize the use of existing facilities
- Use pilot programs to prove new, innovative approaches and processes
- Revitalize the joint basing effort in both management and oversight
- Request a new BRAC round to reduce excess facilities

The taxpayer cannot comprehend, let alone support, the defense budget when they read ... of cost overruns, lack of accounting and accountability, needless overhead and the like. This must stop“

Secretary Ashton B. Carter

February 2015

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Observation – Governance

No enterprise level view of real property management:

- Lack of clear guidance, central oversight, or reporting
 - Confusion in roles and responsibilities (OSD, Services, Commands, bases, etc.)
 - Decisions on real property management default to Services
 - Service culture drives real property decision-making
- DoD Comptroller and EI&E provide limited oversight, but gaps remain:
 - Disconnect between resourcing (budget), personnel, and real property data
 - Cost data collection is inconsistent, and gets little emphasis
 - Lack of use of private sector best practices or standards
 - Limited central oversight of leasing decisions
- EI&E does not exercise enterprise-wide authority to provide policies, guidance, standards and goals for process improvement/cost reductions

To make real progress in real property management, a large organization must have clear leadership and direction from its headquarters



Observation – Governance

Secretary of Defense
Deputy Secretary of Defense
Chief Management Officer/Chief Operating Officer

USD
(Acquisition, Technology
and Logistics)

ASD(Energy, Installations,
and Environment)

General
Policy

Service assistant secretaries
Installation Management

Service Regional and Installation
Commands

Installation Commander

Service Policies
Resources
Oversight

- EI&E has limited ability and information to drive Department-wide standard practices/reforms
- Broad mandate; poorly understood by Services

“EI&E is compliance oriented; does not drive best practices or cost transparency throughout DoD”

Service Assistant Secretary EI&E

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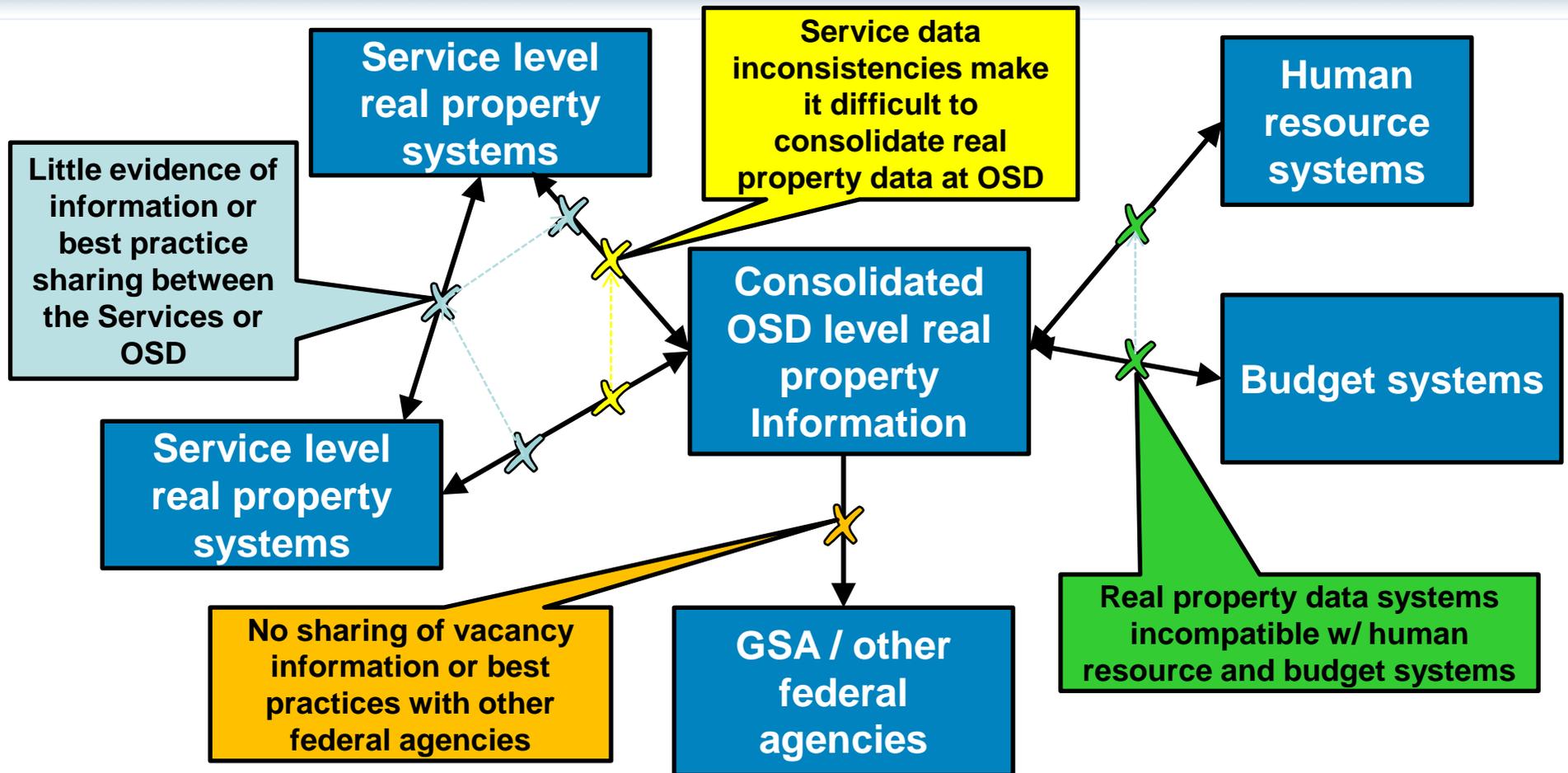
Observation – Data Management

- No common approach to data standards, collection or documentation
- No integrated or centralized reporting at OSD, DoD Components or Service level
- Senior decision-makers do not see the fully-loaded costs; it is impossible to effectively link real property actions to cost impacts
- The Department compares its logistics performance with private sector standards, but does not compare real property management standards
- Lack of data commonality means it is difficult for the Services to share performance standards with each other, the National Guard Bureau, General Services Administration (GSA), other federal agencies or the private sector
- The Department misses opportunities to gain tenants by not sharing facility vacancy information with GSA; and does not routinely look at other federal agencies for available government space to meet its needs
- No framework for OSD or the Services to share best practices

“The first thing we did was to create a common lexicon in the real property data systems, the data wasn’t perfect but good enough.” Private sector real property manager

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Observation – Data Management



For its more than 570K facilities, DoD estimates an annual operating expense; it cannot calculate either actual costs or what a facility “should” cost

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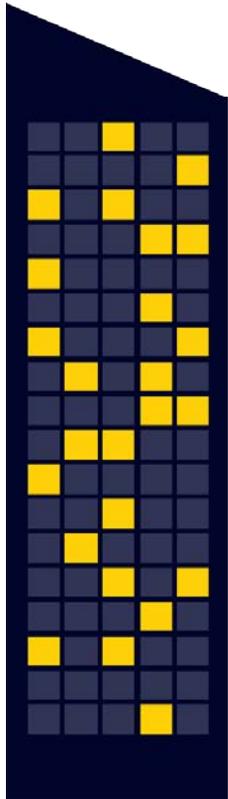
Observation - Incentives and Disincentives

- Culture
 - There are few incentives for a base commander or facilities manager to manage their inventory in a cost efficient manner
 - Commanders are penalized for over or under spending their budget
 - Generally, they cannot keep savings generated by an efficient decision and are almost never penalized for a bad decision
 - Base commanders/tenants often don't have the ability or incentive to implement cost saving initiatives since budget comes from third party
- Regulations
 - Reconfiguring facilities to meet new tenant needs requires resources that are difficult to obtain. Funds to repurpose/reconfigure a facility are capped at \$1M; Above that is classified as MILCON, requiring approval by Congress
 - Office of Management and Budget lease scoring rules favor short-term leases over longer-term acquisitions, which can increase lifecycle costs; scoring rules also limit a base commander or facility manager's ability to partner with private sector capital sources

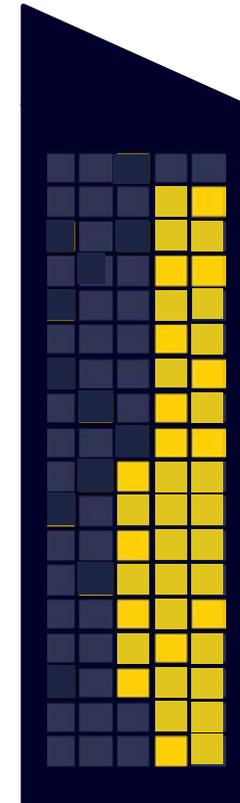


Observation - Lack of Incentives

- No incentives to proactively manage emerging vacancies
- As missions shift and vacancies emerge, the Department does not "rack and stack"
- Property managers cannot offer contiguous space to incoming tenants
 - Increases tenant moves to more expensive leased space
 - Increases purchases of temporary trailer space, often positioned near underutilized structures
- Facility managers cannot consolidate personnel and close underutilized facilities



Lack of proactive management



"Rack and Stack"

In the private sector, investment capital is readily available to reconfigure a facility, if the business plan demonstrates a strong return on investment

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Observation – Mixed Results in Joint Basing

- Joint basing has clear established goals, but...
 - No milestones and outcomes to ensure that joint basing is on track
 - Limited performance metrics to determine the success of individual joint bases
 - Data is limited, disaggregated and lacks granularity; makes it difficult to assess joint base success
 - Reports and key process indicators sent to OSD, but no feedback is provided
- Joint Management Oversight Structure (JMOS) was established by the DSD as a governance framework but has generally devolved to managing disputes
 - Bureaucratic delays and disincentives—approval of Service memorandums of agreements can take up to two years
 - Innovation, learning and best practice sharing is limited/constrained
- Acceptance of the joint basing concept is inconsistent across the Services
 - Senior Service-level installation leaders are dissatisfied with the lack of support for joint basing
 - Frustration with Joint Common Operating Levels of Service (COLS)
 - Joint Bases generally managed under individual Service protocols

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Observation – Base Realignment and Closure

- Declining budgets and force reductions underscore the need to avoid wasting resources on excess infrastructure
 - Army and Air Force estimates show 33% and 32% excess state-side infrastructure respectively; Defense Logistic Agency has 12% excess infrastructure.
 - The Department estimates 22% military base infrastructure is excess.
- Existing authorities limit DoD's ability to reduce or realign excess infrastructure
- Congress remains concerned about the savings that can be achieved by closing bases
 - Skeptical of the Department's estimates of proposed savings
 - Cites the 2005 BRAC round which cost the Pentagon over \$35 billion to achieve roughly \$4 billion in future annual savings

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Observation - Private Sector Best Practices

Over the past two decades, leading private sector companies have transformed their real property functions, reducing total costs by as much as 30%.

- Transformational companies employ five major best business practices:
 - **Collect and analyze relevant data.** Understand and analyze how occupancy costs and facility capacity impact budgets and balance sheets
 - **Centralize key real property commitments.** Centralize acquisition, ownership and leasing commitments under a senior executive
 - **Shrink the facilities footprint.** Simplify building requirements, designs and procedures to reduce visible and hidden costs
 - **Create the market.** Negotiate acquisitions and leases by using portfolio size and corporate reach to achieve more favorable terms
 - **Partner with professionals.** Out-source routine transactions while maintaining oversight; forge alliances with asset managers, developers, and service providers to perform real property management functions



Observation - Private Sector Best Practices

Private sector best practices	Current DoD practices
1- Corporate-wide data/reporting ; <i>common</i> definitions; executive dashboard	1- Service-level data/reporting ; <i>conflicting</i> definitions; fragmented metrics
2- Centralized approvals ; <i>proactive</i> guidance on all leased and owned property	2- Service-level real property approvals ; <i>reactive</i> DoD(EI&E) role/scope/direction
3- Full lifecycle costing ; total asset analysis of all projects/properties; internal and external performance benchmarks	3- Partial Accounting/MILCON/Plant replacement costing ; compliance and technical analysis; limited use of benchmarks
4- Deep outsourcing ; contract most routine transactions/technical functions, retain strategic management	4- Limited outsourcing ; heavy Department-wide administrative and technical overheads, complex real property management systems
5- Extensive partnerships ; global/regional scope, full spectrum asset management, high awareness of performance improvements	5- Limited partnerships ; successes limited to military housing/lodging, low awareness of potential for other asset classes

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Observation – Expanded Use of Private Sector

- While the Department has entered into joint ventures/partnerships with the private sector for housing/temporary lodging, they have not seriously explored similar options for commissaries, military exchanges, recreational facilities, depots, hospitals/clinics, schools, etc. especially in military facilities that are in close proximity to private sector services
- Since funding for the upgrade of military facilities is limited, these private sector relationships could result in improvement in the condition of the facilities
- Expanded privatization of military facilities have been successful in the Canada, U.K., Australia and Israel; contractors have upgraded and now manage entire facilities and bases in the U.K.
- Private sector companies use modern office/housing and facility designs to attract millennials, i.e. Force of the Future

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Recommendation #1 Real Property Innovation Board

DBB recommends that the Deputy Secretary of Defense direct the creation of a "Real Property Innovation Board" with the ASD EI&E as Chair, with members assigned from DCMO, P&R, Comptroller, Service secretaries and Defense agencies.

- Creates a framework for real property decisions and improved linkage of real property, budget, and personnel information
- Uses existing staffs; not a new organization
- DoD needs to:
 - Provide stronger enterprise-wide governance and oversight of real property
 - Empower and incentivize the ASD EI&E to direct an enterprise-oriented facility asset management process for all real property
 - Create a framework for greater integration of budget/resourcing, personnel and real property data into the decision-making process
 - Facilitate cost-saving, innovative approaches to real property management
 - Gather accurate data to make an effective request for another BRAC round
 - Increase flexibility for capital improvements

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Recommendation #1 Real Property Innovation Board **(continued)**

- **Governance**
 - Oversee compliance with Executive Order 13327 (2004)
 - Integrate OSD, Service and Defense Agency management of real property
 - Serve as Department-wide approval authority for new leases (cost and duration thresholds to be determined by USD AT&L with input from DoD Comptroller) – lease requests must demonstrate that no viable alternative (existing facility/space) is available
- **Data Management**
 - Establish and direct a common framework for data, benchmarks and cross-entity best practice sharing
 - Develop a plan for all entities to conduct portfolio surveys for accounting of facilities
 - Consider an ancillary panel of private sector real property experts to advise the Board on ways to incorporate emerging best business practices
- **Incentives**
 - Manage the Real Property Revolving Fund (recommendation #2)
 - Provide tools to identify cost savings opportunities/incentivize their implementation
- **Joint Basing** – subsume the Joint Management Oversight Structure (JMOS) and oversee management of joint bases (recommendation #4)

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Recommendation #2 Real Property Revolving Fund

Pursue legislation to establish a Real Property Revolving Fund, managed by the Real Property Innovation Board, to facilitate innovative reconfiguration of existing facilities

- Incentivizes effective space management
 - Reduces leases and the need for new builds
 - Improves utilization
 - Supports installation commanders/property manager's efforts to develop contiguous space
 - Encourages cost-effective conversions of existing facilities; not limited by \$1M MILCON cap established by Congress
- Limited access to the Fund - only best business cases are approved for funding
 - Requesting organizations present a business case having significant savings/reduced cost or return on investment
 - Repayment is required but additional savings would be available to the organization for internal use
- Fund established/managed separately from DoD's total obligational authority

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Recommendation #3 Pilot Programs

Implement pilot programs of private sector real property best practices

- Create financial incentives for BOTH landlord and tenant to control costs
 - When buildings are funded by a third party, neither the landlord nor tenant's budget is impacted; no incentive exists to limit (or right-size) space acquisition or usage
 - Pilot would discourage such scenarios by ensuring the landlord pays for building operations from its own budget and tenant pays rent from its own budget
- Facilities Overhead Tax
 - Enforce space usage standards by assessing a tax on organizations that exceed the standards; establish space reduction targets and assess a tax on organizations that fail to meet (or make progress toward) space reduction targets
- Manage office space/admin assets in high use locations (e.g. DC/MD/VA, San Diego, Norfolk) to identify cost-saving opportunities
 - Employ “rack and stack” consolidation to identify costs and savings
 - Conduct surveys to identify and reduce excess/unused leased space
 - Washington Headquarters Service has already initiated successful efforts to increase efficiency and reduce leased space (see results in appendix)

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Recommendation #4 Joint Basing

- Shift responsibility of joint basing oversight from the Joint Management Oversight Structure to Real Property Innovation Board
 - Define key performance indicators, milestones, outcomes and checkpoints
 - Reevaluate joint base Common Operating Levels of Service (COLS) with input from joint base commanders and Services; implement updated COLS across all joint bases
 - Incentivize successes, capitalize on quick wins and implement proven best practices across all facilities
 - Report joint base progress and identify mid-course corrections
- Re-launch joint basing emphasizing its importance, mission and benefits



Recommendation #5 Base Realignment and Closure

Request a new BRAC round to reduce excess facilities and free up funds for readiness

- Implementation of a centralized real property governance model will, over time, improve the Department's ability to refine estimates of costs of excess facilities and savings available from BRAC
- Legislative language should be focused on relocating to existing facilities rather than new construction; added scrutiny for any BRAC recommendation that requires new construction or leased facilities, when existing space is available
- BRAC supports a comprehensive, holistic, transparent, and independently validated process for cutting infrastructure
 - Minimizes competing priorities, Service parochialism, and politics
 - Legal obligation forces implementation of otherwise impossible initiatives



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Final Thoughts

This task group was charged with recommending actions which could significantly reduce the cost of managing its real property inventory to free up funds for readiness

Implementing these recommendations can provide significant improvement in real property management, including

- Centralized oversight and management
- Enterprise-wide policies, guidance, standards and goals for process improvement
- More accurate data on condition, utilization/occupancy and value of facilities
- Better utilized facilities

The Department has significantly underutilized its real property potential. Better management and more modern, better utilized facilities compliments the ongoing efforts to reorient the budget to support the mission, and moves the Department towards its innovative future.



Questions?

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