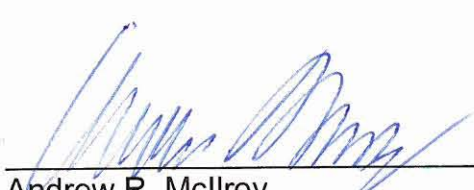


TO: Patrick Magnuson – Dirksen, Room 125
Joanne Hoff – Dirksen, Room 125
Sue Quantius – Capitol HVC 227
Kiya Batmanglidj – Capitol HVC 227
Chad Schulken – Hart, Room 125
Matt Washington – Longworth, Room 1016

SUBJECT: Transmittal of Report Requirements

As requested in the Joint Explanatory Statement for the Committee of Conference accompanying P.L. 115-141, I am transmitting the following:

- A report on Vacant and Underutilized Buildings and Structures



Andrew R. McIlroy
Associate Deputy Assistant Secretary

7/12/18
Date



Vacant Buildings Explanatory Report

**Report Accompanying P.L. 115-141,
Consolidated Appropriations Act of 2018,
Division J (Military Construction, Veterans Affairs and
Related Agencies Appropriations Act)**

July 10, 2018

**Submitted to Congress:
10 June 2018**

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I. Executive Summary

The Department of Veterans Affairs (VA) is pleased to submit this explanatory report in response to the Congressional Appropriations Committees' request. The purpose of this report is to provide information on VA's Vacant Buildings Initiative (Initiative). In June 2017, former Secretary David Shulkin announced plans to initiate disposal or reuse actions for 430 vacant buildings in VA's real property inventory in order to reduce the maintenance costs of unneeded buildings and reinvest the savings in Veterans' services. The VA Initiative set a 24-month timeframe for VA to dispose of or reuse the 430 VA-owned buildings identified as vacant as of the end of FY 2016. To date, VA has disposed of or reused 167 of these assets.

The focus of this report is on vacant buildings. The 430 vacant buildings included in the Initiative were primarily located at VA Medical Centers (413 buildings), and VA National Cemeteries (17 buildings). Since these buildings are not currently used to provide services to Veterans, it is anticipated that the disposal impact will be negligible and will present VA with actionable opportunities to improve its ability to provide Veteran services. In addition, disposal or reuse of the 430 vacant buildings has not and will not have a significant adverse impact on the VA's ability to provide healthcare and benefits for Veterans.

The Secretary also announced a review of 784 non-vacant, but underutilized buildings. These partially-occupied buildings are addressed through the regular VA strategic capital planning process (SCIP), and will be addressed as part of the Capacity and Commercial Market Assessments (Assessments) required by the VA MISSION Act (Public Law No: 115-182).¹ These Assessments will include healthcare planning as well as capital planning with findings and recommendations presented to the President on care delivery in each VA market. These recommendations are expected to impact underutilized buildings, as they may be required for ongoing VA operations, or as available space to enable VA to vacate and later reuse or dispose of buildings.

This report on the Initiative begins with an overview of the size and age of VA's owned real property portfolio, including historic buildings. The report includes details on VA's agency-wide data requirements and definitions used in determining which buildings were included on the vacant buildings list. It outlines the data requirements and involvement of staff offices across levels of VA, from stations² to headquarters, that informed both the assessment of whether a building met the definition of "vacant" and the development and execution of demolition, disposal or reuse plans going forward. The report is intended to:

¹ Section 203(b)(3)(A) of the VA MISSION Act, Public Law No: 115-182: "CAPACITY AND COMMERCIAL MARKET ASSESSMENTS.—(A) ASSESSMENTS.—The Secretary shall assess the capacity of each Veterans Integrated Service Network and medical facility of the Department to furnish hospital care or medical services to veterans under chapter 17 of title 38, United States Code. Each such assessment shall—(i) identify gaps in furnishing such care or services at such Veterans Integrated Service Network or medical facility; (ii) identify how such gaps can be filled..."

² The term "station" describes the sphere of authority of an organizational entity designated by the Secretary. For the purposes of this report, those entities are either VA Medical Centers or National Cemeteries responsible for carrying out the programs and activities of the Department.

1. Explain the process and methodology used to determine, record, and validate which buildings and structures are on the vacant buildings list;
2. Explain the property disposal analyses and coordination processes (including legally-required regulatory reviews);
3. Provide a cost-benefit analysis of the Department's ongoing real property disposal plans;
4. Discuss the impact of historic³ designations of buildings on VA portfolio management; and
5. Confirm that these disposals have not and will not have a significant adverse impact on Veteran healthcare.

Section V of this report contains a review and analysis of the costs and benefits of VA's ongoing real property disposal plans, in the context of the Initiative, as well as for VA's overall real property portfolio. The report concludes with key benefits resulting from implementation of this Initiative.

³ Historic properties are those that have been professionally evaluated and found to meet the criteria to be eligible for or listed on the National Register of Historic Places maintained by the National Park Service. Section 110 of the National Historic Preservation Act of 1966 requires Federal agencies to identify their historic properties.

II. Introduction

VA is pleased to present this report on its Initiative to Congress. VA's mission continues to expand and evolve in its efforts to meet the needs of Veterans and their families. VA continues to balance the need for space to support mission requirements with opportunities to improve utilization of existing buildings. In recent years, VA has conducted comprehensive portfolio reviews to identify vacant and underutilized buildings. VA is employing multiple real property management strategies to reduce unneeded inventory, including disposal of vacant buildings, Enhanced-Use Leasing (EUL), and historic outleasing.

Division J of the report accompanying the Consolidated Appropriations Act, 2018 (P.L. 115-141) required VA to produce a report on the agency's initiative to review the utility of VA property:

"In June 2017, the Secretary announced plans to initiate disposal or reuse actions for 430 vacant buildings in VA's real property inventory in order to decrease the maintenance of buildings VA does not need and reinvest the savings. The Secretary also announced a review of 784 non-vacant but underutilized buildings. While the Department's initiative to review the utility of VA property is commendable, the process by which the list of buildings and structures was created was not transparent. The Department is directed to submit a report to the Committees no later than 90 days after enactment of this Act that includes the following elements: (1) an explanation of the process and methodology used to determine, record, and validate which buildings and structures in VA's real property portfolio are vacant, mostly vacant, or underutilized, and their physical condition; (2) an explanation of the process by which those property disposal analyses and plans were developed and coordinated with, and within, each VISN; (3) a cost-benefit analysis of the Department's ongoing real property disposal plans, both in terms of this immediate disposal action, and in aggregate; (4) a discussion of the impact of historic designations of buildings and structures on the Department's ability to manage its real property portfolio; and (5) a certification that the disposal of these identified properties will have no significant adverse impact on the Department's ability to provide health care and benefits for veterans."

As requested by Congress, this report contains a description of VA's efforts to identify vacant and underutilized buildings in its portfolio, including how VA coordinated its efforts internally; supporting cost-benefit analyses of VA's current and ongoing disposal plans; and the potential effects of this Initiative on Veterans' healthcare.

III. Background

A. Real Property Portfolio Overview

VA operates the nation's largest integrated healthcare system, with more than 1,700 hospitals, clinics, and other facilities. VA owns and leases real property in communities across the United States and overseas, representing one of the largest infrastructures in the Federal government. As of May 2018, VA owns more than 6,300 buildings representing more than 156 million square feet.

VA's real property needs are changing rapidly, along with changes in medical equipment and facility standards. While needs are changing rapidly, VA's portfolio continues to age. Approximately 3,580 buildings (nearly 57%) in VA's portfolio are more than 50 years old. More than 2,200 buildings are designated as historic, requiring VA to take additional steps before making building or service changes. The age and composition of VA's real property portfolio poses challenges to VA's ability to efficiently provide services to Veterans in the context of significant changes in the delivery of modern medicine. Changes in how VA delivers healthcare and other benefits require a new and improved capital infrastructure that is better aligned to the needs of Veterans, making many VA buildings functionally obsolete. In addition, disposal or reuse of vacant buildings can have short- and long-term cost savings.

The following table summarizes VA's current real property portfolio as of May 2018:

Table 1: VA Capital Asset Inventory

Program	Owned Buildings	
	Buildings	Total Gross SF
NCA	589	1,241,054
Staff	13	1,800,309
VBA	25	976,483
VHA	5,680	152,600,699
Totals:	6,307	156,618,545

Source: VA Capital Asset Inventory (CAI) Database as of May 27, 2018

B. Overview of Vacant Buildings Initiative

1. Background on the Initiative

In May 2017, former Secretary David Shulkin stated at a House Appropriations Committee hearing that "VA will continue to assess our infrastructure and collaborate with Congress to find ways to realign VA's capital assets and dispose of those buildings we don't need and reinvest in the buildings we do need." In June 2017, he announced the creation of a 24-month plan to initiate disposal or reuse of 430 vacant buildings, as well as plans to review another 784 non-vacant, but underutilized buildings.

2. Definition of “Vacant” and “Underutilized”

Based on data entered into the Capital Asset Inventory (CAI) database, buildings are categorized by VA as vacant and/or underutilized using the following space definitions:

- **Vacant:** Buildings that are less than 50% occupied. Occupied means people and/or functions (e.g., storage) are housed in the building.
- **Underutilized:** Buildings that are occupied and in use but the function(s) housed there do not require the full amount of space in the building to operate. These buildings are still needed to support the function, but represent inefficient use of space. Buildings with less than a 50% utilization ratio (the required square footage needed to deliver function(s) divided by the size of the building) are considered underutilized.

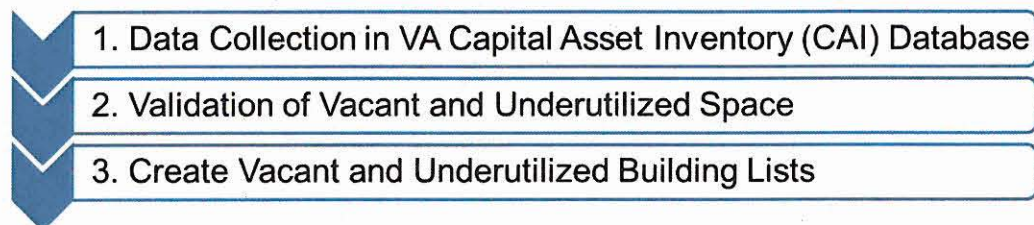
Buildings that are vacant are by definition also underutilized. However, VA does maintain two separate lists and categorizes these buildings as either vacant or underutilized. The vast majority of VA's buildings are utilized, hence are not categorized as either vacant or underutilized.

3. Vacant Building Reuse/Disposal Process Overview

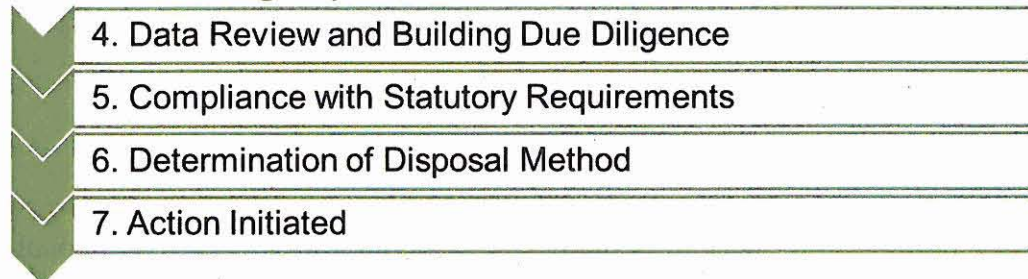
The following diagram summarizes the key steps associated with VA's identification of vacant buildings and potential reuse or disposal methods. More information on the process is contained in Section IV of this report.

Figure 1: Vacant Building Reuse/Disposal Process Overview

Portfolio-Level Steps

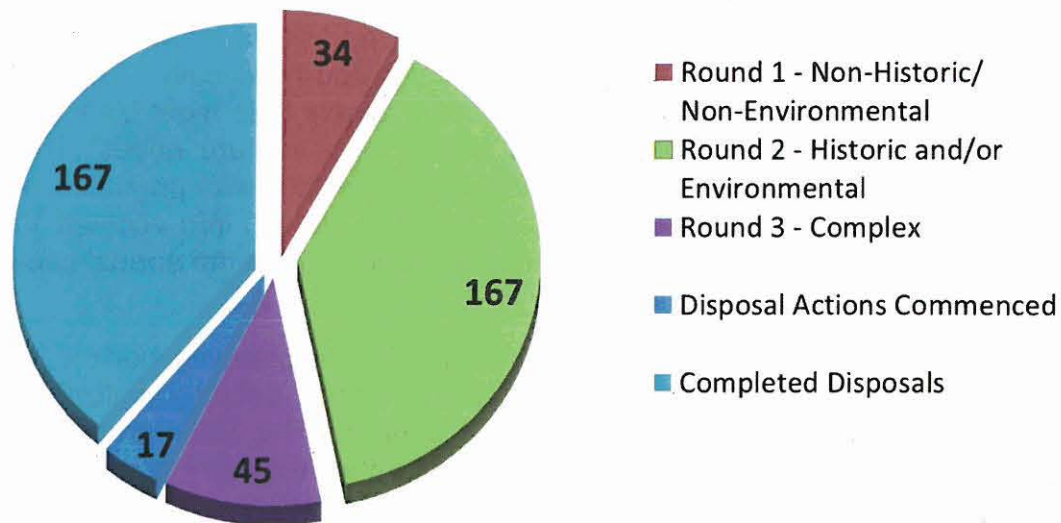


Individual Building Steps



4. Current Status of 430 Vacant Buildings List

As of the date of this report, VA is making significant headway toward reducing its original FY 2016 list of 430 vacant buildings. It has disposed of or reused 167 assets (approximately 39% of the original list) and continues to perform the work necessary for disposal or reuse of all remaining buildings. In addition, VA continues to address any buildings that are newly-identified as vacant subsequent to the creation of the original list.

Figure 2: Status of 430 Vacant Buildings List

Highlights of VA's large-scale dispositions to date include the following:

Table 2: 5 Largest Completed Dispositions (to date)

Campus name	# Buildings	Modality	Disposed SF
Ft. Thomas, KY (VISN 10, OH)	18	Sale	80,839
Perry Point, MD	54	EUL	162,951
Highland Drive Campus	17	GSA Excess	704,559
Knoxville, IA	34	GSA Excess	735,049
New Orleans	1	Transfer	898,651
Totals	124		2,582,049

VA initially triaged the 430 vacant buildings list by assigning them to one of three categories or "rounds": 1) short-term disposal actions (no historic or environmental concerns); 2) mid-term disposal actions (some historic and/or environmental concerns); and 3) long-term and more complex disposal actions (larger projects with historic and/or environmental concerns). To date, 167 disposals have been completed. As of June, 2017, VA has 17 projects where the actual disposal actions have commenced – i.e., funding and a contract for disposal are in place. For the remaining 246 buildings⁴, VA is working to complete the required due diligence processes; however, more complex actions may take more time to initiate and to complete the disposal/reuse action.

⁴ The remaining 246 buildings represent the 34 buildings in Round 1, the 167 buildings in Round 2 and the 45 buildings in Round 3 that are not currently in process or already disposed. As the actual disposal processes for these remaining buildings are commenced, these remaining buildings are then moved to the "Disposal Actions Commenced" category.

C. Intersection with VA SCIP Process

The SCIP process is conducted annually to collect and assess information on VA-wide, long-range capital needs systematically, analytically, and holistically. The annual SCIP process focuses VA on understanding how capital assets help meet VA's mission, and aligning the resources necessary to meet critical infrastructure needs. The resulting priorities are based on clearly defined standards consistent with projected health care workload and current and future health care practices, taking into account VA mission considerations. The process is designed to inform and support the annual capital budget and estimate future funding requirements.

It is intended to identify capital projects over a 10-year planning horizon required to address performance gaps in a variety of areas: safety, security, utilization, access, seismic, facility condition, space, parking, and energy. The SCIP process includes a formal executive review process and is approved by the Secretary to ensure the Plan is closely aligned with the Department's strategic goals and mission. It encompasses non-capital and alternative strategies, such as telemedicine or extended hours for provision of services.

A space analysis is performed as part of SCIP to identify services and space that will be required in a long-range plan for capital. All buildings, including vacant and underutilized buildings that are not already approved for disposal or reuse actions, are part of this annual space analysis. The space analysis identifies needs for space or excess space across the enterprise, at the station level.

The VHA space "gap" is based on two factors:

- projected need for space calculated based on levels of workload (10-year planning horizon) to provide Veterans healthcare across 12 clinical and non-clinical categories; and
- the amount of existing space in the portfolio, including construction and leasing projects already funded and in-process.

The NCA space "gap" is also based on two factors:

- the difference between the number and type of gravesites currently available; and
- the projected demand for those types of gravesites.

As part of this gap analysis, vacant buildings are included in the amount of existing space in the portfolio. Vacant space does not have a projected need. Therefore, the analysis helps identify "excess" space that must be addressed as part of SCIP. Facilities must include in their 10-year plans an identification of how to best re-balance their existing space, dispose of unneeded space, or expand, based on the results of this space analysis. For example, a facility plan may include a proposal to consolidate vacant space across more than one building to create one fully vacant building eligible for potential disposal.

The 430 vacant buildings in the Initiative are already included in the SCIP process with stations⁵ addressing their plans to reuse or dispose of the space in their 10-year SCIP plans. However, the Initiative was designed to accelerate completion of those plans, while ensuring required due diligence is completed efficiently and challenges to disposal or reuse are addressed quickly to allow progress to be made.

Buildings that are currently underutilized are regularly identified and addressed through the SCIP process. Current utilization is driven by current healthcare demand and services provided. Space may become underutilized due to changing healthcare delivery practices or reduced demand for services that are provided in the space. Facility planning under SCIP looks at future healthcare workload projections. To address projected SCIP space gaps, facilities analyze their entire facility footprint and outline plans to utilize facilities to meet space needs for projected future healthcare and other services. Any potential consolidation or improvement of utilization of underutilized buildings are addressed through projects proposed through SCIP.

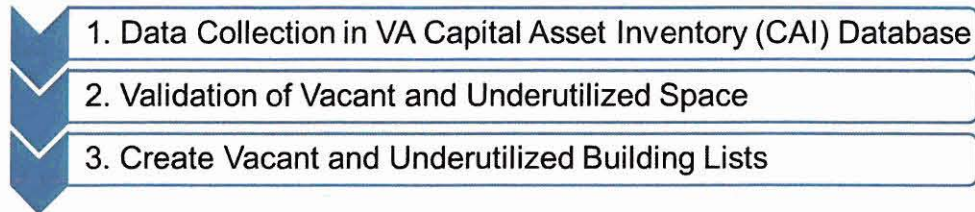
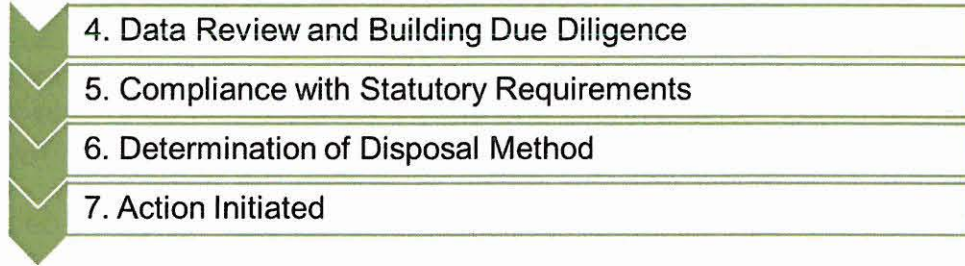
⁵ The term "station" describes the sphere of authority of an organizational entity designated by the Secretary. For the purposes of this report, those entities are either VA Medical Centers or National Cemeteries responsible for carrying out the programs and activities of the Department.

IV. Process and Methodology

A. Overview of the Process

The process of creating the vacant and underutilized building lists began with data collection in the VA CAI database for the VA portfolio as a whole. This database was reviewed and checked through a systematic, in-depth analysis and validation of real property portfolio data, and the resulting data used to create two lists: (1) vacant buildings, and (2) underutilized buildings, using specific definitions. The Initiative focuses specifically on vacant buildings because no services are currently being provided in those facilities and disposal and reuse actions can be taken immediately. Underutilized buildings are being addressed through SCIP or through station space planning processes as they generally require consolidation activities to occur first, before any disposal or reuse actions can commence.

The next step in the process was to understand and evidence the condition of individual buildings as well as any required due diligence information needed to support the station's proposed action. This started with evaluating the 430 vacant buildings and confirming their status as vacant, as well as understanding the station's intended action to address and resolve the vacancy, as provided in SCIP submissions. Following that initial step, VA began a review to understand which of the required due diligence steps, including preparation of reports related to environmental conditions, needed to be completed for each building. In addition, the historic status of each building was confirmed and what, if any, actions had been taken under the National Historic Preservation Act of 1966 (NHPA) regarding the station's intended action were identified. VA contracted for preparation of these due diligence reports, which support meeting statutory requirements and also provide technical information to VA and stakeholders to inform determinations about appropriate disposal methods and reuse alternatives for individual vacant buildings. As due diligence information is being finalized, a disposal method is determined, allowing a disposal or reuse action to be initiated in coordination with the respective Administration or Staff office. An overview of this process is shown below:

Figure 3: Vacant Building Reuse/Disposal Process Overview**Portfolio-Level Steps****Individual Building Steps****B. Process and Methodology Part I: Portfolio-Level Steps****1. Process Step 1: Data Collection in VA CAI Database**

The CAI database is VA's official source of real property data and is the basis for VA's reporting to the Federal Real Property Profile (FRPP) database. CAI is used to evaluate the performance of VA Administrations, stations, and the agency as a whole where it concerns owned and leased real property. Real property inventory data from CAI forms the basis for the majority of the infrastructure gaps used in the SCIP process. Data is entered into CAI in one of three ways:

- **Facility Condition Assessments (FCAs):** VA utilizes a third party contractor to conduct three-year reviews of the condition of its facilities that are updated in CAI.
- **Annual Data Call:** The VA Office of Asset Enterprise Management (OAEM) conducts an annual data call to validate the data in CAI. This usually occurs in June and July and lasts approximately one month. Key roles and responsibilities associated with this annual data call are:
 - **Chief Engineers/Facility Managers** are responsible for confirming that CAI data for their station, including building vacancy and any disposal and reuse plans, have been fully updated in CAI during this point-in-time call period.
 - **Contracting Offices** are responsible for confirming the accuracy of the Lease and Agreement data in CAI. Where there is an inaccuracy, they must work with the Engineering, Contracting Office Representative, or field designee to ensure the information is fully updated.
 - **Veterans Health Administration (VHA), National Cemetery Administration (NCA), Veterans Benefits Administration (VBA) and Staff Offices** are responsible for confirming that their CAI data and disposal and reuse plans have been fully updated during this annual call period.

- For VHA, the Office of Capital Asset Management, Engineering and Support (OCAMES), through their assigned Capital Asset Managers (CAMs), is responsible for point-in-time confirmation that all VHA CAI data for the network and stations (including disposal and reuse plans) have been fully updated in CAI. OCAMES also conducts annual and periodic reviews of CAI data throughout the year to ensure that the real property data is kept up-to-date.
- **Ongoing Updates:** Stations are required to continuously update the CAI database records for all real property (including buildings, land, structures, and leases, and agreements associated with them) throughout the year to support various reporting requirements and on-going initiatives. As real property actions (such as signing a new lease or constructing a new building) are completed that affect the inventory, CAI is updated to reflect those changes and ensure accurate and up-to-date information is available for reporting. In the event a discrepancy is identified by OAEM, the information is reviewed with the station to confirm the discrepancy. If confirmed, updates are made to CAI at that time to resolve the discrepancy. Additionally, VA's Office of Construction and Facilities Management (CFM) also makes regular updates to CAI relating to the historic status of both properties and individual buildings and structures.

The process of collecting and updating information in the CAI database is summarized in the following diagram:

Figure 4: CAI Data Collection



2. Process Step 2: Validation of Vacant and Underutilized Space

Once CAI data collection is complete, the data are assembled and reviewed by OAEM. Any inconsistencies or questions are referred back to the stations. The data are then verified and validated by the Administrations. Stations are required to identify vacant space and enter it into CAI at the facility level. For VHA, OCAMES supervises and validates the data entered by the stations.

If a building is categorized as vacant in CAI, a disposal or reuse plan must be provided. Disposal or reuse plans entered into CAI must be consistent with SCIP submissions for the 10-year Action Plan. These plans are reviewed and coordinated centrally to improve accuracy.

3. Process Step 3: Create Vacant and Underutilized Building Lists

VA utilized the data in the CAI database to generate preliminary lists of vacant and underutilized buildings portfolio-wide. OAEM compiled reports based on the data entered, then coordinated the resulting lists with additional input and quality control from

the stations. The results were used to compile the Vacant Building List and Underutilized Building List.

C. Process and Methodology Part II: Individual Building Steps

1. Process Step 4: Data Review and Building Due Diligence

After coordinating the aggregated building lists, VA's next step was to gather information to understand and document the condition of individual buildings through collection and review of existing building data to understand which of the required due diligence steps, including preparation of reports related to environmental conditions and historic status, needed to be completed for each building.

To enable the efficient and effective completion of required due diligence activities, VA selected and established a list of pre-qualified due diligence support contractors. The specialized services required by VA can take significant amounts of time to complete if each station is required to procure the services independently. By establishing a list of pre-qualified due diligence support contractors, VA Central Office (VACO) has been able to provide centralized oversight of the process, reduce the burden on the stations, and ensure the required portfolio-wide due diligence meets all statutory requirements.

The selected contractors assist with summarizing existing due diligence and conducting further assessments for the 430 vacant buildings, including preparation of environmental reports, such as lead and asbestos reports, Environmental Assessments responsive to the National Environmental Policy Act (NEPA), and Phase I and Phase II Environmental Site Assessments (ESAs) responsive to the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). VA also secured due diligence support to comply with Section 106 of the NHPA, including initial cultural resource reporting to determine the effect of the Federal action and support for consultation. Additionally, as needed, VA has obtained contractor support to assist with the completion of McKinney-Vento Homeless Assistance Act Checklists (Title V).

The due diligence reports are required not only to meet compliance standards for these laws, but also to provide technical information to VA and stakeholders in making business decisions about disposal methods and reuse alternatives for the vacant buildings. These due diligence reports inform the process and help VA categorize buildings for disposal based on the historic status of a building, the extent of environmental concerns, and the presence of one or more other complex issues that would impact disposal or reuse of a building.

2. Process Step 5: Compliance with Statutory Requirements

VA uses due diligence information to ensure compliance with statutory requirements associated with disposals. The disposal or reuse transaction cannot be initiated until the related statutory requirements are met. As discussed above, these include compliance with NEPA, CERCLA, NHPA, and the McKinney-Vento Act. The steps taken to comply with these statutes vary based on the type of disposal or reuse action. In all cases, VA performs the environmental studies; however, other studies may be performed either by

VA or by GSA, if the asset has been excessed to GSA for sale/transfer. Types of actions may include:

- **Environmental:** To satisfy NEPA and CERCLA, VA conducts Phase I ESA and any required lead/asbestos surveys. Once these studies are complete, VA will determine if a categorical exclusion can satisfy the NEPA requirement. If not, a Phase II ESA, or an extension of the Phase I ESA in the form of invasive research will be required to provide more determinative information about possible environmental issues.
- **Historic:** To satisfy the Section 106 process under NHPA, VA (or GSA, if the asset has been transferred to GSA as excess property) must engage in a consultation process with State Historic Preservation Officers (SHPOs), Federally-recognized tribes, local officials and other parties that is unique to each site. The process is dependent on the asset and there is no set duration for the process. VA determines whether the building is historic and notifies the SHPO and other parties of its intended action for the building. If the building is not historic, VA is generally able to conclude the consultation within 30 days. For historic buildings where an adverse effect is anticipated (e.g., demolition), the result is typically execution of a Memorandum of Agreement (MOA) with certain mitigation activities to be undertaken by VA to resolve any adverse effect.
- **Special Case Example – Housing:** Information on buildings slated for disposal, including any lead and asbestos reports, is typically provided to the Department of Housing and Urban Development (HUD) in the form of a checklist as required by the McKinney-Vento Act. HUD determines if the building is suitable to be used as homeless assistance. Buildings deemed suitable undergo further assessment at HUD before a decision on disposal is made.

3. Process Step 6: Determination of Disposal Method

Once due diligence has begun, VACO (OAEM and CFM) supports the station and network on their preferred plan for selected disposal method and to discuss the costs and benefits of different methods.

a) Disposal Methods

Stations make decisions on the preferred action steps and methods of disposal, based on a number of considerations such as feasibility and available funding, and choose from several available disposal methods:

(1) VA Reuse

VA first evaluates all of its vacant buildings for potential VA reuse given the respective campus' space needs and the physical attributes and constraints of the asset.

(2) Enhanced-Use Leasing (Outlease)

VA currently has authority to outlease vacant and underutilized buildings and land, which can be transformed into supportive housing for homeless Veterans. The program has provided significant benefits to VA in terms of annual cost savings; improved facilities consistent with VA's mission and operations; increased healthcare services; substantial

private investment in VA's capital facilities and infrastructure; creation of jobs; and increased tax revenues for local communities.

VA previously had broader EUL authority that allowed for mixed-use and other wide-ranging partnerships beyond supportive housing that were consistent with VA's mission and operations. While that authority lapsed in December 2011, VA has submitted draft legislation to Congress that proposes to expand the EUL authority beyond the scope of supportive housing, which would allow greater reuse flexibility of unneeded assets and improve services for Veterans.

(3) Historic Reuse (Outlease or Exchange)

Authority derived from 54 U.S.C. §§306121-306122 (formerly Section 111 of the NHPA) allows VA to outlease or exchange historic properties with third parties, after consultation with the Advisory Council on Historic Preservation (ACHP), provided the properties are not needed for current or projected agency purposes. VA is implementing this authority through its Historic Reuse Program (HRP). The ACHP is an independent federal agency that promotes the preservation, enhancement, and productive use of our nation's historic resources and advises the President and Congress on national historic preservation policy. Historic outleasing gives VA the ability to preserve historically significant assets while transferring maintenance and management costs to the private sector for a defined period.

(4) Report of Excess and Sale/Transfer

VA has limited authority to sell certain residential buildings and more general authority to directly transfer assets; alternatively, VA may report an asset as excess and transfer the asset to GSA. To date, VA has sold 21 assets directly under VA authority and transferred 51 assets to GSA for sale/transfer.

GSA sales/transfers go through a prescribed process whereby the asset is reviewed to examine the potential for a transfer from one Federal agency to another. If the excess asset is not needed by another Federal agency, it is determined to be surplus and is made available to other government entities, including airports, public health agencies, and educational entities via a public benefit conveyance or a negotiated sale. At this point in the disposal process, homeless advocacy groups retain the right of first refusal due to stipulations included in the McKinney-Vento Homeless Assistance Act.

Executive agencies may conduct negotiated sales under specified conditions.

If no government or non-profit entities wish to acquire the asset, GSA makes the asset available to the private sector, typically in an auction format. It is important to note that when an asset is excessed to GSA, it stays in an agency's inventory until GSA completes its disposal process.

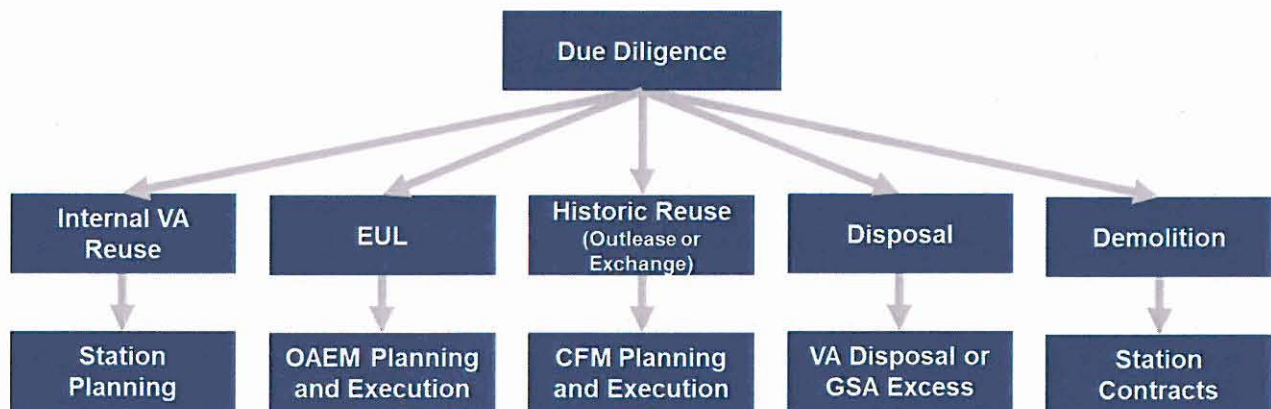
(5) Demolition

VA may use Federal funds to demolish vacant buildings, subject to funding availability and compliance with applicable Federal statutes (e.g., NHPA, NEPA, etc.).

b) Disposal Method Options

VA's options for disposal methods are summarized below:

Figure 5: Disposal Method Options



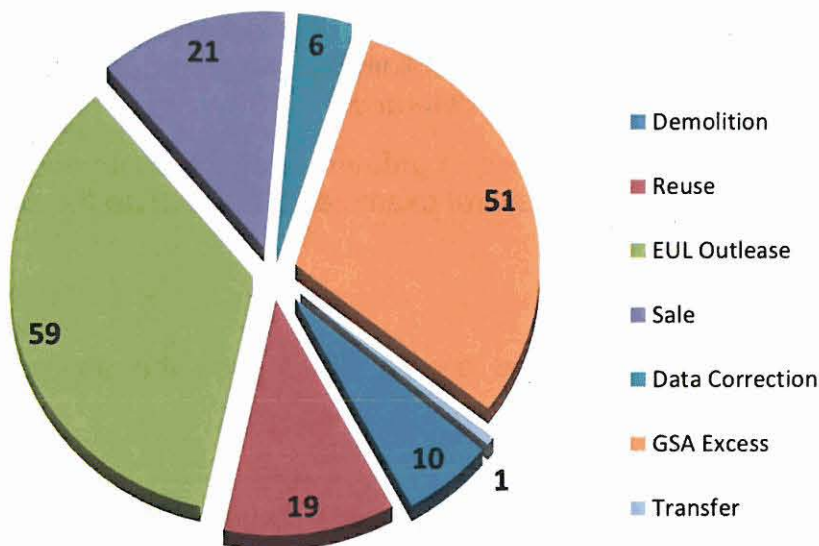
4. Process Step 7: Action Initiated

If the stations and networks declare their intent to dispose of the building, the action is coordinated across VA and the office responsible for handling the selected type of disposition. The disposal or reuse action begins at the station level with collaboration and oversight by the respective Capital Asset Manager. Disposals or reuses for which the station requires additional funding go through the SCIP process to request funding (the SCIP process is not required to submit a building to the GSA excess process).

OAEM works to achieve necessary approvals for the disposal action. Actions to complete the disposal or reuse are then initiated and implemented by the responsible office. For example, the stations plan and execute demolitions; OAEM handles reuse through EUL; and CFM executes sales/transfers and historic outleases, and coordinates the GSA excess process.

To date, VA has reused or completed disposal actions for 167 of the 430 vacant buildings. These 167 disposed or reused buildings constitute approximately 3.1 million square feet. The following chart summarizes the methods of disposal used for these buildings:

Figure 6: Disposals Completed to Date: 167



V. Cost-Benefit Analysis

A. Analysis of Ongoing Real Property Disposal Plans

VA develops and implements its ongoing real property disposal plans – including the Initiative – by carefully considering the potential impacts of disposal actions on VA's ability to provide high quality healthcare and benefits to Veterans across the country. For every vacant building, VA considers the costs and benefits of potential reuse options, including internal Reuse, Enhanced-Use Lease, Historic Outlease, Sale, GSA Excess, and Transfer. If none of these options are feasible, demolition may be the optimal disposal approach.

Across the vacant building portfolio, VA is finding that the long-term benefits of disposal or reuse outweigh the associated costs (e.g., due diligence, demolition, transaction fees). These benefits include allowing VA to redirect resources spent on maintenance of vacant buildings towards delivery of patient care and benefits, freeing up land to allow for the construction of new facilities for high quality healthcare or burials, improving safety and security on campus, and bringing the appearance of VA campuses into better alignment with Veterans expectations for modern healthcare settings. For example, VA estimates that it costs approximately \$7 million annually to operate and maintain the 430 vacant buildings identified as part of the Initiative. By identifying and implementing the appropriate disposal approach for these buildings, VA can reduce liabilities and redirect resources to better serve the needs of Veterans.

The remainder of this section outlines in greater detail the costs and benefits that are considered by VA and describes several examples that illustrate the costs and benefits of disposal.

B. Summary of Costs

The following costs are considered as VA determines the appropriate method of addressing a vacant building:

1. Due Diligence Costs

VA conducts due diligence for all types of potential disposals to ensure that any action it takes is aligned with Federal and, as applicable, state regulations. For all buildings, VA conducts a Phase I ESA responsive to CERCLA. It also conducts lead and asbestos surveys, which together with the Phase I ESAs inform the level of NEPA evaluation required. Finally, it completes Section 106 consultation as required by NHPA. Approximate price ranges for each of these due diligence activities are provided in the following table:

Table 3: Base Due Diligence Costs Per Building

Description	Responsive to Laws	Approximate Price Range (General Case)
Phase I ESA	CERCLA; NEPA	\$6K - \$9K
Lead/Asbestos Surveys	NEPA	\$4K - \$5K
NHPA Section 106 Consultation	NHPA	\$6K - \$9K

Source: VA

Some buildings – estimated at 15% of VA's vacant building inventory – will require additional due diligence. This may include a Phase II ESA as required by CERCLA, an environmental assessment as required by NEPA, and/or mitigation for adverse effects to historic properties as required by NHPA. Approximate price ranges for each of these due diligence elements are provided in the table below.

Table 4: Additional Due Diligence Items Which May Be Needed⁶

Description	Responsive to Laws	Approximate Price Range (General Case)
Phase II ESA ⁷	CERCLA	\$15K - \$36K
NEPA Environmental Assessment (EA)	NEPA	\$12K - \$35K
Cultural resource report	NHPA	\$5K - \$7K

Source: VA

2. Real Estate Transaction Costs

For disposal options requiring a real estate transaction (e.g., EUL, Sale, GSA Excess, Historic Outlease and Transfer), VA conducts due diligence beyond what is described above. This additional due diligence may include identifying and addressing any title or boundary issues, local ordinances, or other legal requirements. In some instances, VA may be responsible for completing remediation and abatement prior to the transaction.

3. Demolition Costs

VA also considers the estimated cost associated with demolishing the building and executing the associated haul and dump activities. Based on VA unit cost estimates from April 2018, the base cost for demolition is \$18 per square foot. This base cost is adjusted for location, and a burden factor to account for design, technical services, site work, contingency, and escalation is applied. For example, for a hypothetical 100,000 square foot building to be demolished in Indianapolis, IN in FY2020, the location-adjusted cost would be estimated at \$2.5 million, or approximately \$24.85 per square foot.

4. Renovation for Internal Reuse Costs

Internal reuse of a building identified as vacant frequently requires investment in improving the facility condition to a level appropriate for providing healthcare or benefits to Veterans. If a building is a candidate for reuse, VA utilizes a FCA to estimate how much investment might be required to address facility deficiencies. This provides a

⁶ VA estimates that 15% of cases will require some additional due diligence.

⁷ Prescribed if prior Phase I ESA report identifies Recognized Environmental Conditions (RECs) which would warrant additional, invasive investigation and testing.

preliminary estimate to which estimated additional costs of potential occupancy are added. These additional costs – particularly in the case of older buildings that are potentially historic – represent the total investment that may be required to upgrade a building to current life safety and seismic standards as well as necessary improvements that align to VA's care models (e.g., PACT).

5. Mothballing Costs

For vacant buildings determined to have a future use, but which cannot be utilized immediately, VA considers the costs of mothballing the facility to control long-term deterioration and reduce future reactivation costs. Costs for mothballing a building can vary widely depending on the building's age, condition, and the amount of structural work needed to ensure safety and prevent further deterioration. Before mothballing, preliminary steps to stabilize the vacant building and correct deficiencies must be executed, taking into account building-specific factors such as historic status, construction materials and the surrounding climate. Steps may include structural bracing and reinforcement of roofs and façades to ensure safety and security; extermination and prevention of pests; and weatherization to prevent water damage. The mothballing effort includes steps such as securing the building and its components from break-ins, vandalism, and weather events; providing adequate ventilation to the interior to control temperature and humidity; securing or modifying utilities and mechanical systems such as electrical or phone lines; and building monitoring for timely identification of potential deficiencies.

C. Summary of Benefits

VA considers the benefits associated with the various approaches for addressing building vacancy. These benefits include:

1. Avoidance of Ongoing Operating Expenses

VA spends a significant amount of money on the operation and maintenance (O&M) of vacant buildings within its portfolio. This includes costs associated with utilities, and routine maintenance (including the cost of minor building maintenance and monitoring building safety and security). VA uses the GSA Federal Real Property Profile to establish operating costs for buildings being considered for disposal. As noted previously, for the 430 buildings identified as part of the Initiative, the annual cost is estimated to be \$7 million. Appropriately disposing of vacant buildings allows VA to avoid these ongoing O&M costs. Avoidance of these expenses allows VA to redirect funding to activities that more directly benefit Veterans, potentially improving access, quality, and satisfaction across the system. This includes funding for direct patient care, key patient care support, and competing non-recurring maintenance (NRM) requirements.

2. Avoidance of Capital Expenses

Given their age and condition, the majority of vacant buildings would require significant investment to allow them to be used for high quality delivery of Veteran care or benefits. In addition, certain capital expenditures may be required to ensure the safety and security is maintained within these facilities (e.g. roof replacement, installation of sprinkler

systems, fixing facades, securing/replacing windows, etc.). Disposing of a building means that VA need not utilize limited funding to address FCA issues, reducing overall FCA deficiencies costs in the system. Similar to avoidance of operating expenses, avoidance of capital expenses allows VA to redirect funding to activities that more directly benefit Veterans, potentially improving access, quality, and satisfaction across the system. This includes funding for direct patient care, key patient care support, and competing NRM requirements.

3. Increased Real Estate Availability for Veteran-Centric Activities

Appropriately addressing vacant buildings allows VA to better ensure that buildings and land are used efficiently, and programmatic space gaps can be addressed. For example, in cases where a building can cost effectively be reused for care or benefit delivery, additional space can be made available for Veteran services. In cases where an EUL is an option, the building can be utilized to create housing for homeless Veterans. Alternatively, in cases where reuse of a vacant building cannot address a space gap, demolition may help VA improve building utilization by freeing up the underlying land for new facilities or parking projects better suited for the contemporary needs of Veterans.

4. Improved Campus Safety and Security

Vacant buildings – even those mothballed – present safety and security risk on campus. Vacant facilities in disrepair may present risk of injury to Veterans, VA staff, or members of the public, and may also provide a venue for vandalism, malicious mischief, or squatters. These risks can be mitigated or eliminated through appropriate reuse/disposal.

5. Enhanced Appearance of VA Campuses/Facilities

Vacant buildings frequently present eyesores on VA campuses. Appropriate disposal of these buildings can help to improve the appearance of the campus and bring VA in closer alignment to Veteran expectations for contemporary healthcare settings.

6. Public Benefits, including State, Local, and Other Municipal Usage

While VA may not have a use for a vacant building, it is possible that a state, local, or other municipal government could use that building to provide services to Veterans or the public. For example, VA facilities may be transferred to a state for operation as a state Veterans home. These facilities provide nursing home, domiciliary, or adult day care to Veterans and are owned, operated, and managed by state governments.

7. Proceeds

In the case of disposal through a sale of real estate, the Treasury receives proceeds. These potential proceeds may vary by building and would be directed to the Capital Asset Fund, which is subject to re-appropriation by Congress for potential taxpayer or Veteran benefit.

D. Selected Disposal Examples

1. Sheridan, WY

Building 13 on the Sheridan VA Medical Center (VAMC) campus is 19,570 gross square feet and is comprised of vacant quarters within a fort built in 1907. It is considered historic and is known/suspected of having structural issues and hazardous waste elements, including asbestos, bird/bat guano, and lead paint. After four years of negotiation with the Wyoming SHPO, an MOA is now in place that will allow for disposal of this long vacant building. Given its historic status, the building is being deconstructed (vs. demolished) to allow for architectural salvage. Disposal of the building will allow VA to remove potential safety issues on campus, decrease operating and maintenance costs, and free space on campus for potential facilities better suited for Veteran care.



2. Bedford, MA

VA recognized the acute need in Bedford, MA for safe, affordable housing for the homeless Veteran population in greater Boston, where the only affordable housing available is often in unsafe areas where alcohol and drug abuse are widespread, which is unsuitable for Veterans who are in recovery and need a supportive living arrangement. Through this EUL, the lessee rehabilitated Building 5 on the leased property into a 60-unit Single Room Occupancy (SRO) project to provide permanent housing to homeless Veterans in the community. This project provides safe, supportive, and affordable housing to mentally ill, disabled, and single adult homeless Veterans. All services are offered exclusively to Veterans. The SRO facility provides revenue, and allows VA to avoid costs associated with building maintenance, property maintenance, and outpatient and domiciliary resources that otherwise would have been utilized in the absence of this project.



3. Dayton, OH

VA realized a need for transitional housing and related “wraparound” supportive services in the Dayton community through the EUL of “Building 400.” Through this EUL, the lessee renovated, operates, and maintains Building 400 on the 1.5 acres of property leased from the Dayton VAMC, providing 50 units of transitional housing beds and related supportive services to eligible Veterans and non-Veterans. This project provides safe, supportive, drug and alcohol free housing and supportive services to Veterans, who receive 100% priority placement. The proximity of the facility



to the VAMC campus ensures easy access to treatment and services necessary to support recovery and improve life opportunities for the Veterans served. The EUL allows VA to avoid costs associated with building maintenance, property maintenance, outpatient services, and domiciliary resources that otherwise would have been utilized in the absence of this project. In addition, VA receives income consideration from ongoing lease payments.

4. Danville, IL

VA is working to complete the transfer of the historic former Carnegie Library, Building 48, at the Danville VAMC to the Danville Area Community College for use as an art studio. A preservation covenant will ensure the important architectural features of the building will be maintained and help the VAMC avoid approximately \$15,000 annually in upkeep costs.



VI. Impact of Historic Designations on Real Property Management

The historic⁸ status of VA's assets and the associated NHPA requirements for the treatment of those assets affect how VA manages its real property portfolio. As described previously, VA is required to comply with NHPA which can impact the types of action undertaken for properties, as well as extend the timeline for such actions.

A. Historic Nature of VA's Real Property Portfolio

VA has more than 2,200 historic buildings (or roughly 35% of VA's owned inventory nationwide). Of those, approximately 85% are currently fully or partially-occupied. The following table breaks down VA's historic owned assets by Administration:

Table 5: VA-Owned Historic Buildings by Administration

Owned Assets	Buildings	Historic Buildings	% Historic of Total Buildings
VHA	5,680	2,070	32.82%
VBA	25	2	0.03%
NCA	589	130	2.06%
Staff	13	1	0.02%
Total	6,307	2,203	34.93%

Source: VA Capital Asset Inventory as of May 27, 2018

B. VA Historic Preservation Successes

VA has successfully preserved many historic assets through either ongoing use or redevelopment by a non-Federal entity under the agency's EUL authority. VA is also in the process of pursuing its first Section 111 HRP outlease transaction in Sausalito, CA.

Selected examples of historic preservation successes (outside of the Initiative) are as follows:

Battle Creek, MI – Mental Health Clinic

VHA renovated historic Building 7 at the Battle Creek VAMC into a modern mental health clinic in 2012. The project enabled the 1944 structure to continue to provide space for delivering healthcare services to Veterans.



⁸ Historic properties are those that have been professionally evaluated and found to meet the criteria to be eligible for or listed on the National Register of Historic Places maintained by the National Park Service. Section 110 of the National Historic Preservation Act of 1966 requires Federal agencies to identify their historic properties.

Augusta, GA – EUL

Under an EUL, Freedom's Path, LLC and Augusta Veterans Residences Limited Partnership will develop a total of 98 units of supportive housing for Veterans on the campus of the Charlie Norwood VA Medical Center (Uptown) in Augusta, GA. The project consists of the renovation of three historic buildings on the campus – Buildings 7, 18 and 76. Construction is underway and a ribbon cutting ceremony has been tentatively scheduled for June 2018.



Leavenworth, KS – EUL

VA entered into this EUL at the National Historic Landmark Dwight D. Eisenhower VAMC to reuse, redevelop, and renovate 38 vacant historic buildings for the purpose of providing approximately 94 units of affordable senior housing, long-term care, transitional housing, and office space. This project offers a unique opportunity for Veterans (who receive priority placement) to live and receive care on the VAMC campus in a 'life-care' community setting. Approximately, 400 VA employees now work in Building 19, the 1886 former mess hall that was converted into modern, flexible space for the Central Plains Consolidated Account Center (CPAC).



The EUL allows for the transfer of property maintenance costs to a private partner. VA also avoids costs associated with domiciliary resources that otherwise would have been needed in absence of the project.

C. Compliance with Section 106 of the NHPA

Section 106 of the NHPA (NHPA) requires Federal agencies to consider the effects of their undertakings on historic properties. VA has initiated the mandatory review for all 430 vacant assets. This process involves consultation with the respective SHPO and others. If the agency finds that no historic properties are affected by the anticipated action, VA provides documentation of this to the SHPO and, barring an objection within 30 days, may proceed with its undertaking. If historic properties are affected, VA must assess possible adverse effects based on criteria found in the ACHP's regulations in consultation with the SHPO and other parties. If VA and the SHPO agree that there will be no adverse effect, then VA is able to proceed with the undertaking subject to any agreed-upon conditions. If VA and the SHPO agree that there is an adverse effect, then VA must seek to resolve the adverse effect with SHPO and others as needed, who may include Indian tribes and Native Hawaiian organizations, local governments, permit or license applicants, and members of the public. This process usually culminates in a MOA, which outlines agreed-upon measures that VA will take to avoid, minimize, or mitigate the

adverse effects. Once the MOA is executed, VA is able to proceed with its undertaking under the terms of the MOA. (Source: ACHP)

The Section 106 consultation process can be time consuming, particularly when VA's anticipated action may result in adverse effects or when VA and the SHPO disagree about the impact of a proposed action. In these situations, VA, the SHPO and other parties must work closely to identify potential mitigation measures and then document those measures in the MOA. This process can take time and result in significant delays associated with VA's intended disposal or reuse plan if not adequately accounted for in the project timeline as VA cannot move forward until the consultation process has concluded.

D. Historic Buildings in the Initiative

1. Number of Historic Vacant Buildings

As shown in Table 6, of the 430 vacant buildings included in the Initiative that are the subject of this report, 361 (or 84%) are historic.

Table 6: Historic Buildings included in the Initiative

Owned Assets	Buildings	Historic Buildings	% Historic of Total Buildings
VHA	413	346	83.78%
NCA	17	15	88.24%
Total	430	361	83.95%

To understand the current overall portfolio (as of May 2018), the following table shows the current number of historic buildings in VA's owned portfolio by Administration and whether the buildings are historic, vacant, or both historic and vacant:

Table 7: Current Total VA Inventory of Historic Buildings by Administration (as of May 2018)

Program	Owned Buildings			Vacant and Historic
	Buildings	Historic	Vacant	
NCA	589	130	32	30
Staff	13	1	0	0
VBA	25	2	0	0
VHA	5,680	2,070	359	305
Totals:	6,307	2,203	391	335

Source: CAI database as of May 27, 2018

2. Historic Outleasing

Among the many methods being employed to reduce the agency's vacant building inventory, VA is actively pursuing potential historic outlease opportunities under the

agency's HRP. Although the authority has existed for many years, VA has only recently established the HRP to make use of this additional disposal tool.

3. Notable Historic Preservation Successes in the Initiative

a) Signed MOAs to Date

VA has successfully executed 20 agreements (MOAs and Programmatic Agreements) with SHPOs and other parties over the past three years for disposal of 194 historic buildings and structures nationwide. These agreements enable VA to move forward with demolition or EUL plans that will reduce maintenance and safety liabilities and free up space for future clinical or burial operations.

b) Pittsburgh, PA – Highland Drive Campus

In the fall of 2016, VA determined that the historic Pittsburgh, Highland Drive campus was excess to the agency's needs. The campus totaled 168 acres and approximately 752,326 square feet of space. The site has been vacant since it was closed in 2013, as a result of the consolidation of services and functions to other local VA hospitals. VA initially proposed to demolish the campus, but as a result of collaboration with GSA, in May 2017, VA submitted a report of excess to GSA for disposal. GSA is currently completing the remaining due diligence activities to comply with



statutory requirements, including historic consultation. This action will likely result in the preservation of all but one historic building on the Highland Drive Campus.

E. Program Comment

In April 2018, in an effort to expedite the Section 106 consultation process for vacant buildings that VA does not need and intends to dispose of, VA published a Notice of Availability and Request for Comment in the Federal Register describing an alternative process that VA may utilize to comply with the requirements of NHPA in reducing its unneeded real property inventory. VA intends to request in June 2018 that ACHP provide a Program Comment for the entire program of reduction of vacant and underutilized properties. The goal of VA's request is to reduce time spent consulting on small, non-descript, ancillary utilitarian support buildings and structures. ACHP may agree or decline to consider VA's Program Comment request. If ACHP does issue a Program Comment in lieu of case-by-case review, this alternative will conserve VA's time, budget and staff resources. It will enable VA to transfer real property rights of the vacant and underutilized properties more quickly while still giving consideration to historic properties as required by NHPA. While ACHP decides whether to issue the Program Comment, it will publish a draft in the Federal Register for public review and comment.

VII. Impact on Department's Ability to Provide Health Care and Benefits to Veterans

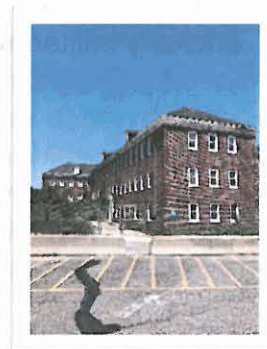
Disposal of the 430 vacant buildings will not have a significant adverse impact on the Department's ability to provide healthcare and benefits for Veterans. Because these buildings are currently vacant and are not currently used to provide services to Veterans, it is anticipated that the disposal impact on services to Veterans will be negligible.

Disposal of these properties may present VA with new opportunities to improve its ability to provide Veteran services. These opportunities include the following:

1. VA resources currently spent on operating and maintaining vacant buildings can be redirected toward provision of care and benefits, allowing for improved access and quality of services.
2. VA real estate can be repurposed to house homeless Veterans through EUL or provide space for complementary services through historic outleases, or demolished to allow for building of new infrastructure (e.g., clinic space, parking structures, burial sections) better suited for the needs of Veterans and contributing to their overall satisfaction with their VA experience.
3. The safety and security of VA campuses can be improved by removing risk of physical injury to Veterans and the public, and reducing opportunities for vandalism, malicious mischief, or squatters.
4. The appearance of VA campuses can be improved, bringing VA in closer alignment with Veterans' expectations for high quality, contemporary healthcare settings and environments of care.

Example: Northport, NY – Demolition of Buildings 1 and 2

Buildings 1 and 2 on the Northport campus were built in 1927 and are a combined 99,223 gross square feet of space. The buildings are currently not in use, and are fenced off and boarded up. These conditions present an unsightly welcome to Veterans using the main entrance of the campus. Demolition of the buildings will significantly enhance the appearance of the campus and allow VA to bring its facilities in better alignment with Veterans' expectations for contemporary care. A MOA completing Section 106 compliance was recently executed in June 2018.



Example: Brooklyn, NY – Demolition of Building 3

Building 3 on the Brooklyn campus has been vacant for more than 15 years and is currently uninhabitable. Hazardous materials were used in the construction of Building 3, and deterioration over the period of vacancy has resulted in cracked ceilings, floors, walls, and roof, leading to mold growth within the building. This project would provide an updated hazardous materials assessment and take the required steps to demolish the existing structure which would include proper abatement of the identified hazardous materials prior to demolition. The project would also address a parking shortage on the Brooklyn campus with the footprint of the former building allowing for the construction of a new asphalt parking lot, with a minimum of 30-50 spaces, along with sufficient site lighting, storm water drainage, signage, and painted markings.

VIII. Summary

The VA Initiative began in June 2017 when former Secretary David Shulkin announced plans to initiate disposal or reuse actions within 24 months for 430 vacant buildings in VA's real property inventory in order to reduce the maintenance costs of unneeded buildings and reinvest the savings in Veterans' services. As of the date of this report, VA is making significant headway toward addressing this list. It has disposed of or reused 167 assets (approximately 39% of the original 430 buildings) and continues to perform the work necessary for disposal or reuse of the remaining buildings. In addition, VA continues to address buildings that have been identified as vacant subsequent to the creation of the original list.

Across the vacant buildings portfolio, VA is finding that the long-term benefits of disposal or reuse outweigh the associated costs (e.g., due diligence, demolition, transaction fees). These benefits include allowing VA to redirect resources spent on maintenance of vacant buildings towards delivery of patient care and benefits, freeing up land to allow for the construction of new facilities for burials and high quality healthcare, improving safety and security on campus, and bringing the appearance of VA campuses into better alignment with Veterans expectations for modern healthcare settings. By identifying and implementing the appropriate disposal approach for these buildings, VA has, and will continue to reduce liabilities and redirect resources to uses that better serve the needs of Veterans.