

<http://www.heritage.org/Research/GovernmentReform/bg187.cfm>

June 4, 1982

### **Surplus Federal Property: It's Time to Sell**

by England, Catherine

Backgrounder #187

(Archived document, may contain errors)

J 187 li June-4, 1982 y I SURPLUS FEDERAL PROPERTY IT'S TIME TO SELL  
INTRODUCTION Fort DeRussy sits on 72 acres in Waikiki, Hawaii, 26 acres of which are beachfront property. In 1975, the Department of Defense constructed a highrise hotel for use by military personnel on nine of the beachfront acres. The remaining 17 currently unused, are valued at around \$13 million per acre.

Meaning: the Department of Defense is holding onto unused property whose sale would probably net over \$200 million The U.S. Mint Assay Office in New York City is located in a four-story building on East River waterfront property in lower Manhattan. There gold and silver bullion are processed and refined, and the metal content of coins withdrawn from circulation is reclaimed. The building cost 4.4 million in 19

32. Its present value: more than \$8 million The Department of Agriculture conducts research on 9,500 acres of land in Beltsville, Maryland. When the land was purchased, Beltsville was primarily a rural community and the Agriculture Department paid about \$90 per acre for the land. Since then, however, the area has grown into a densely populated suburb and land values have increased accordingly. The recent sales price for parcels adjacent to the government-owned land: up to 50,000 per acre I I I is 8 I These parcels of property are carried on federal records at acquisition costs, and those who manage them probably think the government is getting a good deal in this real estate and other similar pieces. But the true cost of owning anything is what one foregoes to keep it.

In other words, the cost of owning 17 acres of Waikiki beach is not what it cost to acquire the land originally, but the \$200 million unrealized by not selling it. 2 This raises troubling questions. For example Is there any reason the Mint Assay Office needs to be located on prime commercial property in Manhattan?

If not, shouldn't the government consider selling the property for the 8 million it would bring and moving the Assay Office to a location where land is less valuable Is potentially valuable residential property the best place the government can find to conduct agricultural research I Such questions about specific parcels, in fact, prompt more general queries. For example What property does the government own What is it worth Is it managed efficiently?

Does the government need all it owns? More than it owns These and similar questions are being asked with increasing frequency by the public, members of Congress, and individuals within the executive branch. Not all the questions can be answered completely. And often when answers are found, they are disputed.

Furthermore, the response of the President and Congress to these questions and the actions they have generated have been subject to misunderstandings, rumors, and innuendo. Many groups have panicked because, as one member of the Western Governors Policy Office put, "Nobody knows just what is going on, and that's part of the problem." What is clear, however, is that there is a need to set the record straight concerning what Congress and the Administration have done to date and what is proposed. First, however, it is necessary to take a look at what the federal government owns and how well it manages its property WHAT THE GOVERNMENT OWNS A recent General Accounting Office (GAO) report, prepared at the request of Representative Ken Kramer (R-CO), revealed that as of September 30, 1979, the date of the latest General Services Administration (GSA) inventory, the federal government owned William E. Schmidt, "West Upset by Reagan Plan to Sell Some Federal Lands," New York Times, April 17, 1982 3 o 744.1 million acres, or 32.7 percent of all land in the U.S o 405,147 buildings, containing over 2.65 billion square feet of floor space; and o \$52.3 billion (when valued at acquisition costs) of structures and facilities such as power development, flood control, and navigation projects; roads and bridges; reclamation and irrigation projects; airfield pavements; harbor and port facilities; and miscellaneous military facilities, monuments, and memorials.<sup>2</sup> The land owned by the federal government is not evenly distributed among the 50 states. There are, in fact, wide disparities. For example, 91.2 percent of Alaska is federally owned.

Over 50 percent of Idaho, Oregon, Nevada, and Colorado is held by the federal government, and, overall, 47.7 percent of the Western U.S. is publicly held land. By contrast, only 3.8 percent of the Northeastern and North Central states is federally owned and in none of these states does the government own more than 9 percent of the land.<sup>3</sup> Furthermore, unlike earlier U.S. history when the federal government was generally disposing of property it owned the government has followed a course of acquisition since the end of the 19th century.

Establishing the value of the property is much more difficult than determining what is owned. Property is carried on the books at acquisition costs, and the various agencies make no attempt to determine the current value of the property they control. In fact, 92 percent of the public lands are listed on official government inventories at a value of zero since they were never actually purchased Therefore, the \$104.9 billion official cost of real property (land, buildings, and other facilities) vastly understates the actual market value of the property While the various agencies have little interest in determining the market value of the real estate in their domain, other groups have made Ilguesstimates! from time to time. These appraisals are generally calculated by adjusting historical costs by various inflation indices. Naturally, calculations of this sort are subject to

criticism. They fail to take account of local market situations, current economic conditions, and other factors 2 "Numerous Issues Involved in Large-Scale Disposals and Sales of Federal Real Property GAO Report CED-82-18, December 11, 1981, p. 2 For another example of the distortions caused by this practice, consider the land on which the White House sits. It is carried on the books at a value of \$1,000.

GAO Report, p. 3 Ibid p. 10. 4 that could affect the property's market value. Even more important, because the vast majority of public land is recorded as being acquired at no cost, adjustment of these values using inflation indices is impossible.

Even so, existing estimates still provide some sense of the vast amount of property held by the federal government. For 1978 estimate of the replacement value of federal real property 1979, the Comptroller General's Interagency Advisory Committee on again excluding public land holds at \$316 billion.6 example, the Advisory Commission on Intergovernmental Relations (excluding public domain land) was \$279 billion. In September Federal Consolidated Financial Statements valued federal property More recently, in testimony before the Senate Committee on Governmental Affairs, the American Society of Appraisers (ASA estimated that there may be as many as 5,000 parcels of land that could be considered surplus. Furthermore, ASA representatives testified, the value of these lands may run into the \$100 billions incomplete. This lack of information concerning the current value of property held by the federal government is one of the primary impediments to a quick determination of which property ought to be owned and which might be disposed of by the government These appraisals are of necessity rather vague and L EFFICIENCY OF GOVERNMENT MANAGEMENT In attempting to determine whether the federal government efficiently manages what it owns, it is instructive to consider owning anything is what is given up to keep it. One measure of this cost is the current market value of the property ing his property, the titleholder. is foregoing income that would be received if he were to sell first how private land ownership operates As noted, the cost of I By retain I The costs of holding on to a particular piece of real estate must obviously be compared with the benefits of ownership.

Owning a business situated on a well-located piece of commercial property may provide tremendous advantages; if moved, the business might not be nearly as profitable. This consideration could easily offset any advantages to selling.

There may also be non-quantifiable benefits to property ownership sentimental attachment to the land, or a natural beauty the owner deems unique Ibid.

Statement on behalf of The American Society of Appraisers before the Senate Committee on Governmental Affairs, March 18, 1982, p. 3 5 No matter how owners (or potential owners) measure costs and benefits, privately owned land should eventually end up in its highest valued use whether high-rise apartments, department stores, factories, amusement parks or large gardens and lawns.

The businessman who does not need to be located in the center of town to conduct his business successfully will sell his prime commercial property and move his business. The farmer whose financial and "psychic" income from farming is less than his return if he sold his land to a housing developer will sell and move. The landowner who feels the peace and quiet from having his home surrounded by three wooded acres is "priceless" will not sell. In short, the market works to allocate land to the uses society deems most important.

This pattern differs enormously when the government owns real property.

In the first place, in most cases the agency holding a particular piece of property has little if any idea of its market value. Given this lack of information, even individuals within an agency who wanted to see the land put to its highest valued use could not. A second, more serious problem is created by the government's management of real estate. Few agency employees care about determining the best use of a particular piece of property. There is no incentive for them to do so. The private owner of real property responds to market pressures because he receives the benefits from the sale. That is not the case for the government employee making a similar decision.

His rewards do not depend on the skill with which he manages government real estate. In fact, a decision to place land or a building on the "excess properties" list may eventually reduce his agency's share of the federal budget. After all, Congress may reason, this agency has fewer resources—under its control and, hence, needs less money. Circulating the list of excess properties asking if any agencies can use the land or buildings, they are often taken up on the offer. Real property is transferred between agencies at no cost to the acquiring agency. Why not pick up anything that may be useful? Increasing the property one's agency controls is a means of increasing the power and prestige of the bureau or department. For similar reasons, when the General Services Administration These differences between public and private ownership were summarized last September at a meeting of the Public Lands Council.

Dr. Steve Hanke, a senior economist on the President's Council of Economic Advisors observed: What makes these laws general? The answer is quite simple. Private property rights make the individual property owner solely responsible for the consequences of his decision. This gives the owner an incentive to use his property in a productive and efficient manner.

On the other hand, with public ownership, politicians and bureaucrats are never directly and solely responsible for the consequences of their decisions.<sup>8</sup> This does not mean that all land should be placed in private hands and subjected to the profit motive of the U.S. with benefits in the non-quantifiable category. The national parks, for example, have been set aside as places of unusual natural beauty. These properties are managed in a way intended to preserve them for future

generations suggest that any other type of management is appropriate. Wildlife refuges and wilderness areas represent similar cases of public lands set aside because of unique, irreplaceable characteristics.

Much of the government-owned property, however, falls outside these categories and could legitimately be considered for privatization. Some of these properties are located in already developed areas and might be put to more effective use by private owners. Few would. TAXING AND REVENUE CONSIDERATIONS There are other reasons to consider privatization of portions of the federal property holdings.

From the point of view of state and local governments placing publicly owned land into private hands could result in considerable gains. As long as property is publicly held, it is not taxable by state and local governments. In private hands however, the base would broaden. In the spirit of new federalism with more and more programs being turned over to the states state and local governments should welcome this new source of revenue. In fact, for just this reason, the National Association of Counties supports (with some reservations) the Senate resolution calling for the sale of excess government property. There are also financial gains at the federal level. The federal grazing lands, for example, actually create negative cash flows for the government. In 1981, grazing fees totaled \$24.9 million while the costs of managing the property were \$41.6 million and federal payments to local governments in lieu of taxes were \$16.9 million.<sup>1</sup> are liabilities for the federal government not assets. Giving them away would put the federal budget, and hence the taxpayer in a better position. As Steve Hanke put it, "These lands Steve H. Hanke, "Privatize Those Lands," Reason, March 1982, p. 39.

Statement of Tim Schultz on behalf of The National Association of Counties before the Senate Committee on Governmental Affairs, March 18, 1982.

Steve H. Hanke, "On Privatizing Federal Grazing Lands," Manhattan Report May 1982. 7 Current proposals, however, call for selling these lands not giving them away. In testimony before the Senate Governmental Affairs Committee, Budget Director David Stockman stated that sales of excess government property could yield as much as \$1.2 billion in fiscal 1983 and \$2.2 billion in succeeding years. Others have predicted annual proceeds from unneeded federal buildings and land might reach 4 billion annually.

President Reagan, Congressman Kramer and Larry Winn (R-KS) and Senator Charles Percy (R-IL), among others, have suggested the receipts from these sales be used to retire a portion of 1,000,000,000,000 (\$1 trillion) national debt.

Earmarking these revenues for debt reduction is probably the best use to which they can be put; it is certainly better than the current system of placing sales proceeds in special funds with which more property will be acquired. Not only would the debt be reduced, but the government's presence in the money markets would be lessened and the federal budget reduced as interest payments required to service the debt would

diminish.

But these advantages should not be exaggerated. A \$2 billion debt reduction, while significant, is only 0.2 percent of the \$1 trillion. Based on projected interest payments in fiscal 1983 of 112 billion,<sup>12</sup> a \$2 billion debt reduction would reduce the federal budget by only approximately \$224 million.

While the numbers are certainly significant absolutely relatively they are not large enough to have a significant impact on the capital markets. Furthermore, those purchasing the property must raise the 2 billion purchase price from the same national capital markets, so pressure on interest rates would not be reduced dramatically. The most important effect this debt retirement may have is the reassurance provided the capital markets that the government is indeed trying to do everything possible to reduce the debt. In sum, while the revenue aspects of excess property sales are certainly important, particularly for the state and local governments, increased productivity and efficiency in resource use should be the primary reason for public property disposal.

Otherwise, disappointment may result when the capital markets do not respond dramatically and the program may be halted prematurely. THE ARGUMENTS AGAINST SALE OF PUBLIC PROPERTY A number of groups oppose the privatization of public real property for widely varied reasons. Statement of David A. Stockman, Director, Office of Management and Budget before the Senate Committee on Governmental Affairs, February 25, 1982 p. 14.

Statement of The Honorable Ken Kramer before the Senate Committee on Governmental Affairs, February 25, 1982, p. 2. 12.8 Among the most vocal opponents are environmentalist groups.

During hearings this March, the National Audubon Society, the Sierra Club, the National Wildlife Federation and the Izaak Walton League of America testified against resolutions supporting the sale of public lands. Their criticisms generally fell into two categories.

Their first objection was summarized by Jack Anderson in a recent column when he expressed concern "that once the door is opened, the speculators and exploiters will swarm. These environmentalists claim that selling excess government property now may be the first step toward selling portions of the national parks in the future.

The second broad criticism attacks the argument that real property ought to be managed for the highest economic return.

Debbie Sease, representing the Sierra Club, testified, "Economic return cannot be used as the sole yardstick for measuring public benefit from federally owned property."<sup>14</sup> Dusty Zaunbrecher spokesman for the National Wildlife Federation, echoed this when he proclaimed, "We find the second theme, that government ownership of land is inefficient

and therefore should be abolished, particularly abhorrent. The Federation believes America presently has too many economic landlords and not enough good stewards of the land. (15 statements before the committee.)

This point was reaffirmed by similar groups in their. Also fighting these proposals are Western ranchers and others who currently lease federal lands. They fear that the lands will be sold to the highest bidder and that livestock operators and other small users will not be able to compete with mineral, oil, and coal companies that might be interested in the land.

Some private real estate speculators and state land managers worry, moreover, that suddenly placing large blocks of public real estate on the market might sharply depress local land values. In addition, support from state and local governments has not been unqualified. Under current law, surplus federal property may be transferred to state and local governments for public parks or public recreation purposes. These properties may be sold or leased to municipal governments, but when setting a transfer price, non-quantifiable benefits that may accrue to the land. Jack Anderson, "Privatizing Could Bring Land Grabs," *The Washington Post* March 19, 1982. Debbie Sease on behalf of the Sierra Club before the Senate Governmental Affairs Committee, March 18, 1982, p. 1.

Statement of Dusty Zaunbrecher on behalf of the National Wildlife Federation before the Senate Governmental Affairs Committee, March 18, 1982, p. 6. Public use of the proposed use of such property must be considered.

Therefore, these pieces of land are regularly transferred at prices substantially below their market value. In fact, they are sometimes given away as part of a "good neighbor" policy and local governments fear that in a bidding war they would be unable to compete with private interests and Park Association suggests states and localities be given the right of first refusal to purchase surplus property at not more than 50 percent of its fair market value. State The National Recreation Finally, questions have been raised by the General Services Administration which oversees the sale of all government surplus property staff's ability to handle the increased workload resulting from sales of the magnitude proposed by some members of Congress and the Administration. The GSA currently employs only about 110 people nationwide to deal with the government's real property and agency spokesmen assert they are already making every effort to sell surplus property.

Thus, the main criticisms of selling federal surplus property are: 1) economic considerations are not the best tool for judging the proper use of publicly held property; 2) acceptance of the theory of "privatization" of land will only open the way for large scale disposal of land now consciously maintained in some sort of natural state; 3) those currently granted access to public lands for grazing, mining, or for use as public parks would be treated unfairly if these properties are sold to the highest bidder; 4)

careless dumping of public property in some areas might ruin local real estate markets especially if success is measured only in terms of dollars raised; and 5) in an era when agency budgets are being reduced, the GSA may not have the manpower necessary to properly administer the program. Yet many of these concerns should be relieved by a careful examination of what has actually been proposed. A spokesman for the agency expressed concern about the ADMINISTRATION INITIATIVES. The first hint of what President Reagan's stand on this issue might be was in a speech by Steve Hanke at the annual meeting of the Public Lands Council in September 19

81. In that speech, Hanke pointed out that the goals of the Sagebrush Rebellion were misplaced. Transferring federal lands to the states would only substitute one government bureaucracy for another. Instead Hanke suggested excess government property should be placed in private hands where it would be even more productive.

Having carefully considered the ideas expressed by Hanke the States' Rights Coordinating Council reconsidered its previous unwavering support for the Sagebrush Rebellion privatization, at least in some cases, might be preferred, the Coordinating Council passed a resolution in December 1981 supporting the efforts of the Reagan Administration and Congress to dispose of unneeded federal real estate. Deciding that 10 In preparing his budget for fiscal 1983, Reagan pledged to move systematically to reduce the vast Federal holdings of surplus land and real property while fully protecting and preserving our national parks, forests, wildernesses, and scenic areas.<sup>11</sup> In this budget, the President predicted that disposal of excess government property would generate \$1 billion in fiscal 1982 and as much as \$4 billion in the succeeding four years.

To implement his new policy, Reagan issued Executive Order 123

48. This established a Property Review Board whose tasks include: 1) develop and review federal real property acquisition utilization and disposal policies; 2) advise the Administrator of the GSA in setting standards and procedures to ensure that real property no longer essential be promptly identified and released for appropriate disposition; 3) review prior disposals of surplus property made at discounts for the 'public good' to ensure the property is being used and maintained for the purpose intended property placing particular emphasis on resolving conflicting claims on and alternate use for property described in these reports; and 5) establish a target amount of real property to be identified as excess for each executive agency. The Executive Order also requires the head of each federal agency to survey public property holdings and identify those underutilized or unused. Real property identified by the various agencies and the

GSA as surplus is ordered to be promptly made available to its most beneficial use 4) receive the reports made by or to the GSA on federal real property. Meanwhile, recognizing the legitimate concerns of those leasing federal lands, Hanke set about developing a means for determining the price of these lands for those leasing federal grazing lands, but a

similar system could be used to protect miners or others leasing federal lands as well. Hanke developed his proposal. It is widely recognized that public grazing fees have been consistently set below the market clearing levels; that is, grazing fees are set below the price at which the demand for grazing lands just matches the supply. Because of the low price, there are more ranchers seeking to lease grazing lands than lands available. Therefore, the price of private lands to which public permits are attached has risen substantially. The value of the grazing rights not represented by the public grazing fees is captured in the higher prices of private lands providing access to public grazing lands. In privatizing public grazing lands on an equitable basis, then, the charge for the public land must take account of the portion of the value already included in the price ranchers paid for their privately held property. (The Budget Message of the President for Fiscal Year 1983, pp. M18-M19.)<sup>11</sup> Based on this analysis, Hanke suggests that ranchers currently holding permits for federal grazing lands be given first refusal rights when these lands are offered for sale. In addition, the first refusal price should "be set by capitalizing (at a one percent real rate of interest) the annual fees in 1982 dollars averaged over the past five years) that the rancher has paid."<sup>17</sup> If the rancher refuses to buy the land at this price, it is then sold to the highest bidder for federal lands. They will not be forced to bid against better financed private concerns possibly interested in the lands.

Furthermore, the President has specifically excluded the national parks, forests, wilderness, and scenic areas from consideration for the disposal program. This should reassure those concerned that selling some excess government property will open the door to selling parts of the national parks or real estate to consider privatizing without the wilderness areas and wildlife refuges. During fiscal 1983, in fact, only those properties already on the GSA surplus properties list are expected to be considered for disposal. This proposal should reassure ranchers and others now leasing. Indeed, there is plenty of CONGRESSIONAL INITIATIVES. Meanwhile, in both the House and Senate, representatives have been struggling with the fiscal problems of the federal government: revenues and reduce the deficit without raising taxes.

The question before them has been how to raise. In July 1981, Representative Ken Kramer asked the General Accounting Office for a report on what federal lands could and should be sold, the market value of those lands, and suggested methods of disposal that would raise the most revenue but deal with all interests in a fair and equitable manner. Senator Percy and Representative Winn were independently pursuing a similar path with their staffs. These three Congressmen felt that the response of any businessman or individual facing outflows that exceeded receipts would be to sell some assets. The federal government could be asked to do no less. Therefore, last fall Percy and Winn introduced identical resolutions in the Senate and House (S. Res. 231 and H. Res. 265).

The resolutions would require the President to direct executive branch agencies to inventory their assets and to estimate the value of each asset while identifying the uses



of this property to carry out its assigned tasks, but not all this property is necessary. And the costs of holding the unneeded land and buildings may be more substantial than most people realize. In the first place, state and local governments are not able to tax property owned by the federal government. This can be a serious problem. There are counties in which 95 percent or more of the land is federally owned. Several have over 50 percent of the area within their boundaries in federal hands. Clearly, moving this property into private hands would reduce the local tax burden and/or enable these municipalities to offer more services. For some localities. Second, if receipts from the sale of government property are used to begin to retire the national debt, an important message will be sent to the capital markets.

Congress will be seen as being serious about reducing the debt.

The psychological impact of this message may be even more important than the actual, relatively small reduction in the debt.

Most important, selling unused or underutilized pieces of property to the private sector will increase the overall efficiency and productivity with which the nation uses its natural resources. Because they do not bear the costs or gain the benefits derived from their management of the government's real property, federal employees cannot be expected to see that this property is always put to its highest valued use. The Administration and Congress should be re-emphasized that those advocating the sale of excess government property recognize the intrinsic value of the national parks and wilderness areas. These are specifically excluded by both the Administration and Congress. Attention instead will be focused on abandoned military bases, deserted federal buildings, vacant urban lots and other unneeded parcels of property held in the public domain. In addition, the Administration is working on equitable means for selling public lands to the ranchers and miners who currently lease them.

The federal government will have to choose carefully those pieces of property placed on the auction block. Some pieces of federal real property are not as valuable as others and the Administration and Congress must take this into account when setting goals. In addition, the value of real estate in local markets must be considered when deciding what property should be offered for sale. 14 The advantages of selling excess government property are many, however, and will clearly outweigh the potential problems if the program is handled correctly. Catherine England, Policy Analyst