CALIFORNIA STATE AUDITOR

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FACT SHEET

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The California State Auditor released the following report today:

California Department of Transportation

Its Poor Management of State Route 710 Extension Properties Costs the State Millions of Dollars Annually, Yet State Law Limits the Potential Income From Selling the Properties

BACKGROUND

Responsible for managing and renting hundreds of historic and nonhistoric properties on roughly 4.5 miles of an unconstructed gap in the freeway just north of State Route 10 in Los Angeles and State Route 210 in Pasadena, the California Department of Transportation (Caltrans) maintains and inspects these properties. It hires private contractors and the Department of General Services (General Services) to perform repairs on the properties. For decades, Caltrans has proposed the State Route 710 extension project to close the unconstructed gap but has yet to move beyond the planning stage for a variety of reasons related to the federal environmental review process. Caltrans is currently considering several options for moving forward, including either building a tunnel instead of a freeway, or not building anything at all.

KEY FINDINGS

During our review of Caltrans' management of the State Route 710 extension project parcels and property units (SR 710 properties), we noted the following:

- Contrary to its policy, Caltrans has charged the majority of the tenants of its SR 710 properties rents that are far below their market value for years.
  - ✓ Over a four-year period, Caltrans collected roughly $22 million less in rent for these properties than it would have if it had charged fair market rents—constituting a gift of public funds, which is prohibited unless the rents serve a public purpose.
  - ✓ As of February 2012, 15 state employees, including four who work for Caltrans, were renting these properties at below-market rents. As such, the difference in the market rental value of the properties and the rent paid by these employees constitutes either income or a gift of public funds.
  - ✓ Caltrans spent $9.7 million more to repair the properties than it received in rent over three and a half years, resulting in a net cost to the State of nearly $2.8 million per year.
  - ✓ For the 58 properties that it rents to low-income tenants for significantly below-market rents under its affordable rent program, Caltrans has not verified annually each tenant's income eligibility and thus, has no assurance that these tenants still qualify.
- Caltrans has poorly managed repairs related to the SR 710 properties—we found that for many of the 30 properties we tested, Caltrans was unable to demonstrate that the repairs were necessary, reasonable, or cost-effective.
  - ✓ It did not routinely perform annual field inspections of the properties to determine if repairs were necessary.
  - ✓ For the last six fiscal years, Caltrans paid General Services an average of $4.7 million annually without a contract and without sufficiently evaluating alternatives to having General Services perform its repairs or monitoring the repair work billed.
- General Services cannot justify the fees it charges clients—we found that it undercharged its clients by $7 per hour in one fiscal year and overcharged them by $10 per hour the following fiscal year.
- General Services has not provided proper oversight of its repair project costs and does not properly monitor labor charges for its temporary employees—known as casual trades or day laborers. Of the 99 daily time reports that we reviewed related to eight casual laborers, 43 time reports had not been signed by either the casual laborer or the supervisor.
- State law limits the State's asking price when selling the properties should it decide to do so—Caltrans estimated that the market value of the residential parcels was $238 million. However, if the State were to deem these residential parcels as surplus and sell them in accordance with applicable state law, it potentially could receive only $40 million.

KEY RECOMMENDATIONS

We made numerous recommendations to Caltrans including that it determine fair market rent for most of these properties and adjust the tenants' rents after proper notice, ensure that only eligible tenants receive the benefit of the affordable rent policy, and annually review the tenants' household incomes. Other recommendations are aimed to ensure that repairs made to these properties are necessary and reasonable and to periodically perform comprehensive analyses of viable options for repairing the properties in order to achieve cost savings. Additionally, we recommended to General Services that it ensure it charges its clients appropriately for the work it performs and delineated several needed improvements. Moreover, we recommended the Legislature consider establishing a mechanism that would allow Caltrans and the affected cities to jointly manage the properties.