

# California State Auditor

B U R E A U O F S T A T E A U D I T S

## The State's Real Property Assets:

*The State Has Identified Surplus Real Property, but Some of Its Property Management Processes Are Ineffective*



January 2001  
2000-117

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# CALIFORNIA STATE AUDITOR

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January 30, 2001

2000-117

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the amount of state-owned real estate (property) in high-cost counties that is surplus and the adequacy of state agencies' management of their property.

This report concludes that the state has many surplus properties in high cost areas; however, the status of many of these properties is questionable. In addition, it can take the Department of General Services (General Services) years to dispose of surplus. Some of these delays occur because state agencies often declare properties surplus years before they are ready to vacate them. Staffing shortages in the unit responsible for selling surplus also contribute to the delays. Similarly, the Department of Transportation (Caltrans) can take years to dispose of its surplus property, in part, because it is not a high priority for Caltrans.

State agencies also continue to lack effective procedures or incentives for evaluating their real property holdings and identifying excess. The State's lack of oversight for property management activities and the lack of effective property inventory systems or reliable reports exacerbate these problems. Finally, General Services has not fulfilled all of its obligations to administer a state program to provide child care facilities in state-owned buildings and does not prepare plans to accommodate the State's office space needs as often as required by its own guidelines.

Respectfully submitted,

ELAINE M. HOWLE  
State Auditor

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# SUMMARY

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## Audit Highlights . . .

*Our review of the State's management of its real property assets revealed the following:*

- ☑ *Although there are numerous properties in the State's surplus property inventories, many are not available for disposal and the disposal of surplus properties can take years.*
  - ☑ *The State's approach for identifying surplus property remains flawed.*
  - ☑ *State agencies' inventory systems do not provide effective property management tools or reliable reports.*
  - ☑ *The Department of General Services can improve its management of the State's office space including space leased out for child-care facilities.*
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## RESULTS IN BRIEF

California law requires that most state agencies review their landholdings (property) each year to identify real estate that exceeds the agencies' property needs. The State considers properties surplus when the agencies that own them no longer use the sites or do not use them fully and when the agencies have no plans to use the sites in the future. Two agencies responsible for disposing of most of the State's excess property are the Department of General Services (General Services) and the Department of Transportation (Caltrans). Although these two agencies have many surplus properties, the surplus status of some of the properties is questionable because some of these properties are not actually available for disposal. In addition, the disposal of surplus properties can take years. When such properties sit idle, the State does not benefit from funds it would receive by selling or leasing these properties, and it may incur unnecessary maintenance costs. Moreover, until leased or sold, these properties are not available for other purposes, such as housing, parks, or open space.

In requesting this audit, the Legislature expressed an interest in the availability of surplus state property in high-cost counties for public use, such as low-cost housing. We identified 15 counties, referred to here as *high-cost counties*, in which the cost of real estate is relatively high, housing is relatively scarce, and the State owns a significant amount of land. General Services has 27 properties, totaling 754 acres, in its current surplus property inventory that are located in these high-cost counties. However, not all of the properties are available for immediate disposal or for unrestricted use after the State does dispose of them. Specifically, only 7 of the 27 surplus properties are available for sale or have sales pending. The agencies that own 5 of the other 20 surplus properties have reassessed their program needs and now want to keep the sites. Of the remaining properties, 11 are not available for immediate disposal, and 4 have been designated for sale or transfer to specific entities by legislation authorizing their disposition.

General Services can take years to dispose of surplus property. In fact, its current surplus properties have been pending disposal for an average of 6.7 years. These delays occur for several reasons. For example, state agencies often declare properties surplus

before the agencies are ready to vacate the sites because the agencies want to facilitate timely acquisitions of new properties or prompt exchanges with other state or local agencies for other properties. As a result, these excess properties appear in the surplus property inventory long before they are available for disposal. In addition, the law requires General Services to offer surplus properties first to other state agencies, then to local government agencies, and finally to the public. Interest in surplus properties by local governments can delay disposition of the real estate while the governments search for interested parties to develop the properties in ways that most benefit the affected local communities. Further, staffing shortages in its Surplus Sales Unit have contributed to delays in General Services' disposition of surplus properties.

Caltrans, which is the other agency that disposes of most of the State's excess real estate, has 1,928 properties, totaling 1,829 acres, in its surplus property inventory for the high-cost counties we reviewed. However, its surplus property inventory is incomplete because Caltrans district offices have not recorded all of their surplus property in the inventory. After Caltrans identifies a property as surplus, it may be years before the property is available for disposal. At three of the four districts we visited, Caltrans' surplus property inventory showed properties had been pending disposal for as little as several days to as long as 50 years. In addition, sales during the last 10 years have taken as little as several days to as long as 38 years from the time the property was identified as surplus to the time it was sold. Caltrans places a higher priority on completing highway projects than on processing and disposing of surplus property, and this emphasis causes some of the delays. Because the activities necessary for making surplus property ready for disposal require some of the same professional services as those needed when acquiring property and preparing property records for highway construction, disposal activities must compete with construction project activities for department staff and resources. Caltrans performs tasks required to dispose of surplus properties, such as preparing surveys, appraisals, maps, and deeds as highway project construction schedules allow. Although it is understandable that Caltrans places its highest priority on completing the construction of highway projects, its project management standards also address staff's making surplus properties ready for sale, and its project management guidelines assign responsibility to project managers to ensure that Caltrans completes all aspects of projects.

Our review of state-owned properties in high-cost counties was not the first examination to uncover problems with the State's management of its real estate. Previous studies, including those performed by the Office of the Auditor General and the Little Hoover Commission, expressed much concern over the State's property management practices and offered many suggestions for improvement. In spite of these studies and the actions taken by the State in response to their findings, the State still lacks an effective process for evaluating whether it needs the property it owns and for identifying surplus.

The agencies' efforts are inadequate, in part, because the State lacks oversight of property management activities to ensure that landowning state agencies are adequately reviewing their property holdings and identifying property that is surplus to their program needs. Although General Services is responsible for collecting information on surplus properties when reported by agencies, it does not have the authority to ensure that agencies perform diligent reviews of their property holdings, nor does it have the authority to review or question the decisions of other agencies about property retention or the status of their properties. Studies of the State's property by General Services suggest that efforts of state agencies have not identified surplus property effectively. In a 1995 study mandated by the Legislature, General Services identified 123 unused or underused properties owned by 12 agencies that the owning agencies had not identified as surplus even though the State's agencies have been required since 1988 to review their property holdings annually.

State law requires most state agencies that own real property to evaluate their holdings each year and to report surplus property to General Services for disposal. Although agencies are responsible for conducting reviews of their property holdings to identify property that is surplus to their current or foreseeable program needs, state agencies generally have not developed and implemented adequate procedures to do so. For example, of the eight agencies we queried that have large landholdings in high-cost counties, none had written procedures to evaluate its real property holdings and to identify property that is surplus to its needs. Few incentives exist for most landowning agencies to actively identify and dispose of property that is surplus to their current and foreseeable program needs. For example, the proceeds from most property sales do not benefit the selling agency but are deposited in the State's General Fund.

Similarly, the few agencies, such as Caltrans, that are not required to report their surplus property to General Services but are instead responsible for reporting surpluses to specific oversight commissions have also neglected to perform adequate reviews of their property holdings. Caltrans has developed procedures that are generally adequate for reviewing its properties. However, we found that because of a lack of commitment from management, Caltrans district offices do not always follow those procedures and some do not perform adequate reviews of their property holdings. In addition, unreliable inventory reports hinder Caltrans' efforts to conduct property retention reviews.

The State could improve its real estate management by implementing practices used by other government entities. Various state governments and the federal government have implemented diverse practices to meet the challenges of managing real estate assets, including procedures for identifying and disposing of surplus property. Like California, other governments have cited challenges, such as a lack of specific criteria for determining when the governments no longer need particular properties and a lack of incentives for agencies to spend resources to identify and dispose of surplus property. To meet these challenges, other governments have proposed various options for managing real estate. One common suggestion from state governments and the federal government for improving decisions about surplus property is for the government to establish an independent body to review the processes and criteria for retaining property and to arbitrate property retention decisions.

California's agencies have not developed and implemented property inventory systems that serve as effective management tools for real property or that provide reliable reports. Neither General Services nor Caltrans has complete, accurate databases that would aid them in managing real property. Reports prepared to inform the Legislature of the status of the State's surplus real property are not always timely or accurate. General Services could also provide more useful information about the status of surplus property, such as the reasons for delays in the property's disposal. In addition, Caltrans does not always produce required annual reports, and it bases on incomplete and inaccurate databases the reports it does produce. Current, complete property inventories are important to effective management of the State's property.

Finally, General Services has not fulfilled all of its obligations to administer a state program to provide space for child-care facilities in state-owned buildings. Specifically, it has been remiss in executing required lease agreements and in collecting rent payments from child-care providers. General Services thus exposes the State to unnecessary liability and reduces tenant revenues for the State's buildings. To resolve one of these issues, a study group within General Services has recommended that the department waive rent payments; however, General Services cannot legally waive rent except when such an action is needed to ensure the viability of the child-care facility. Moreover, General Services does not conduct regional studies of office space occupied by state agencies or prepare plans to accommodate the State's office space needs as often as required by General Services' own guidelines.

## RECOMMENDATIONS

To manage the State's real property effectively and to identify and dispose of its surplus real estate efficiently and promptly, the Legislature, General Services, and Caltrans can take the actions outlined below.

To speed the disposition of its surplus property, General Services should take the necessary steps to fill the vacant positions in its unit responsible for selling, leasing, or transferring surplus properties and promptly assign to staff surplus properties for disposal.

Caltrans should ensure that it properly accounts for and disposes of surplus property as promptly as possible. Specifically, Caltrans should make sure that staff list and correctly categorize all surplus property in the Caltrans' databases. In light of its competing priorities, Caltrans should also explore alternative methods to assist in the prompt identification and timely disposition of its surplus property. Such methods may include reassigning staff, hiring temporary staff or contractors, or seeking additional resources to perform some activities needed to identify and prepare surplus property for disposal.

To provide consistency and quality control over the review of the State's real property holdings, the Legislature should consider empowering an existing agency or creating a new commission or authority with the following responsibilities:

- Establishing standards for the frequency and content of property reviews and land management plans.
- Monitoring agencies' compliance with the standards.
- Scrutinizing agencies' property retention decisions.

Alternatively, this entity could be responsible for conducting periodic reviews of the State's real property and making recommendations to the Legislature regarding the property's retention or disposal.

If the Legislature does not wish to establish such an oversight entity, it should consider replacing the current requirement for annual property reviews with a requirement for less frequent but more comprehensive reviews.

Furthermore, the Legislature should consider providing incentives to state agencies to encourage them to identify surplus and underused property so that the State can free the property for better uses. Such incentives could include allowing agencies to retain the proceeds from the disposition of surplus properties for use either in funding current or planned capital outlays for new property or in improving and modernizing existing facilities when the need exists.

To make certain that it adequately reviews its real property holdings and identifies surplus properties, Caltrans should ensure that its district offices follow department procedures for reviewing properties.

In addition, Caltrans should correct the property information in its real property databases to make sure it has reliable information to manage its real property holdings. Caltrans should also provide General Services with accurate, timely annual reports on the status of its real property holdings.

Similarly, to improve the value of reports to the Legislature about its surplus property inventory, General Services should ensure that it submits reports promptly, and it should consider including in reports more detailed information on the status of surplus inventory.

General Services should execute leases to provide space in state-owned buildings for child care and enforce required lease terms, including the collection of rent, in accordance with the law.

Finally, General Services should perform planned studies of regional office space to provide an adequate strategy for consolidating the State's office space.

## **AGENCY COMMENTS**

General Services generally concurs with our recommendations and states that the recommendations will be promptly addressed. Caltrans concurs with our findings and also agrees to implement our recommendations. Further, the Business, Transportation and Housing Agency states that it will develop performance benchmarks to monitor Caltrans' progress in implementing our recommendations. ■

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# INTRODUCTION

## BACKGROUND

The State owns more than one million acres of land in the 15 counties we reviewed. This report refers to these counties, chosen for their high cost of real estate, relative scarcity of housing, and the amount of land the State owns in them, as *high-cost counties*. The State's resources agencies, including the Department of Fish and Game, the Department of Parks and Recreation, and the Department of Water Resources, are the largest landowners among the State's agencies. Other landowners with significant holdings include the State Lands Commission, the Department of Transportation (Caltrans), and the Department of Corrections. Table 1 lists the major landowning agencies in these high-cost counties and the total acreage under these state agencies' control.

**TABLE 1**

Land Controlled by State Agencies in High-Cost Counties		
Agency	Acres	Percentage of Total Acres
<b>Resources agencies</b>		
Department of Parks and Recreation	765,925	72.1
Department of Fish and Game	123,442	11.6
Department of Water Resources	14,975	1.4
Department of Forestry and Fire Protection	6,695	0.6
Other resources agencies	4,396	0.4
<b>Subtotals</b>	<b>915,433</b>	<b>86.1</b>
<b>Other state agencies</b>		
Caltrans	79,817*	7.6
University of California	39,638	3.7
State Lands Commission	9,592	0.9
California State University	6,343	0.6
Department of Corrections	2,897	0.3
Department of Developmental Services	2,357	0.2
Department of Veterans Affairs	2,247	0.2
Department of Mental Health	1,487	0.1
Department of the Military	330	0.1
Other state agencies	2,007	0.2
<b>Subtotals</b>	<b>146,715</b>	<b>13.9</b>
<b>Totals</b>	<b>1,062,148</b>	<b>100.0</b>

Source: Statewide Property Inventory as of June 15, 2000.

\* Total acres as reported by the following databases: The Caltrans Right-of-Way Property Management System as of August 29, 2000, for real property related to transportation projects. The Statewide Property Inventory as of June 15, 2000, for operational facilities.

Because of rising prices and diminishing supplies of available land, it is increasingly important that state agencies owning real estate in high-cost counties ensure that they do not occupy more real estate (property) than they require to administer their programs. To that end, state law requires most state agencies to review their property holdings each year to identify property that the agencies will not need in the foreseeable future. The law requires most state agencies to report to the Department of General Services (General Services) the surplus and underused property they identify. The State considers properties surplus when the agencies that own them no longer use the sites or do not use them fully and have no plans to use them in the future.

Some agencies have the authority to dispose of their own property with the approval of the boards or commissions that oversee their operations. Examples of such agencies include the Department of Water Resources, the Department of Fish and Game, the State Lands Commission, and Caltrans. These agencies are permitted to retain the proceeds from the sale of property. Most agencies, however, do not have such authority. When these other agencies declare property to be surplus, General Services seeks legislative approval to dispose of the property for them. When the Legislature does approve a property's disposal, General Services gets jurisdiction over the property and begins the process of transferring, selling, or leasing the real estate. The law requires General Services to maintain an inventory of these surplus properties. Unless otherwise specified, the proceeds from the disposal of surplus property must be deposited in the State's General Fund.

Unless special legislation details the manner of disposal for a surplus property, General Services must offer it first to other state agencies, then to local government agencies, and finally for sale to the public. Normally, General Services must sell at its fair market value any surplus property that state agencies do not need. However, local agencies may purchase surplus property at less than fair market value if the local agencies will use the property for certain purposes, including parks and recreation or low- and moderate-income housing.

## **GENERAL SERVICES PROVIDES REAL ESTATE SERVICES AND MAINTAINS THE STATEWIDE PROPERTY INVENTORY**

General Services provides comprehensive real estate services to all state agencies through its Real Estate Services Division (Real Estate Services). This division handles asset planning, property sales and acquisitions, and property management, and it is responsible for approving the State's leases to acquire property interests as well as leases giving other entities or individuals the use of state-owned property. Real Estate Services maintains two units related to the management and disposal of surplus or underused property. Its Asset Planning and Enhancement Branch (Asset Planning) is charged with identifying and implementing solutions for increasing the market value of unused or underused state-owned properties. The Surplus Sales Unit is responsible for tracking the State's surplus property and shares with Asset Planning the responsibility for disposing of surplus property.

State law requires General Services to maintain a complete, accurate statewide inventory of all property, with the exception of property held by the Legislature and Caltrans. The Legislature intended for the Statewide Property Inventory (inventory) to be a centralized property management tool for the State's property. The law requires state agencies to report property transactions to General Services so that it can update the inventory. General Services requests that those agencies annually verify the accuracy and completeness of the information contained in the inventory.

## **CALTRANS MANAGES PROPERTY FOR TRANSPORTATION PROJECTS**

Caltrans is responsible for planning, designing, building, operating, and maintaining California's state highway system and for managing some of the State's surplus property. In addition to running its headquarters programs and administrative divisions, Caltrans operates 12 districts, each with its own units to acquire property for transportation projects, manage the property it owns, and dispose of excess property. When the California Transportation Commission proposes and approves a highway project, Caltrans may begin to acquire the properties needed to construct the project (the rights-of-way). It may acquire some property years in advance when substantial building activity or appreciation in the value of vacant land is both likely and

imminent. Similarly, Caltrans acquires some properties in advance when a proposed project will have a negative impact on a property owner that can be resolved only if the State purchases the property. Caltrans may also dispose of property that it acquired but did not use for the projects, or it may set aside the surplus property to mitigate the environmental impact of highway projects. Generally, Caltrans must offer surplus property successively to other state agencies, then to local government agencies, and finally to the public for sale.

Caltrans accounts for its property holdings in four databases. The Integrated Right-of-Way System lists parcels that Caltrans has identified as necessary for future highway projects, and it includes parcels that Caltrans has not yet acquired. The Right-of-Way Property Management System accounts for rental property that Caltrans owns as well as other property it has acquired for future highway projects, whether the property is needed or is surplus. The Excess Land Management System (ELMS) records property that Caltrans does not require for current or future highway projects or for its operational needs. Surplus property can consist of landlocked property or remnants of property, or it can result from scaled-down highway projects, changes in planned highway segments, canceled routes, projects not adopted by legislative action, or changes in existing rights-of-way. Within the ELMS, Caltrans classifies the surplus properties according to their readiness for disposal. For example, Caltrans can classify surplus properties as ready for immediate sale; held for possible future use in the highway project for which they were acquired; or held pending the completion of administrative tasks, such as environmental cleanup, appraisals, or the preparation of maps or title deeds. Finally, the Asset Management Inventory system includes all operating facilities, such as district offices and maintenance stations, that Caltrans owns.

Caltrans has developed an annual process, called the real property retention review, for evaluating its property to justify its holdings and to identify surplus properties. Caltrans' retention guidelines permit it to retain excess property for several reasons. For example, Caltrans may hold surplus property until a project is complete if the project has unresolved design issues or if the property's use may be disrupted during construction. The Asset Management Branch of Caltrans headquarters coordinates the annual reviews, and the district offices perform them. The Streets and Highways Code states that Caltrans shall, to the greatest extent possible, offer to sell or transfer surplus real property within one year from the date that the department determines it to be surplus.

Before Caltrans clears the surplus property for disposal, districts “circulate” it among the various units involved with property retention to ensure that other highway projects or department programs do not need the property.

## SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits conduct an audit of the management of real property held by General Services, Caltrans, and other state agencies with major landholdings, except for the University of California and the California State University.

High-Cost Counties
Alameda
Contra Costa
Los Angeles
Marin
Napa
Orange
San Diego
San Francisco
San Mateo
Santa Barbara
Santa Clara
Santa Cruz
Solano
Sonoma
Ventura

Specifically, the audit committee requested that we determine how much state-owned real property in high-cost counties is surplus or underused and whether these agencies are adequately managing their property. The audit committee also expressed an interest in the availability of surplus state property in high-cost counties for possible public use, such as low-cost housing.

To gain an understanding of the requirements under which state agencies manage their real property, we reviewed relevant state laws and regulations. To identify high-cost counties where the State has significant landholdings, we reviewed median home prices issued by the California Realtors Association, housing vacancy rates issued by the Department of Finance, state-owned acreage and total square footage of

state-owned buildings maintained by General Services, and housing shortages projected by the California Department of Housing and Community Development. Following these analyses, we limited our review to state-owned real property in the 15 high-cost counties we identified.

To identify state agencies with major landholdings, we reviewed the property holdings of all state agencies except the University of California and the California State University reported in the

Statewide Property Inventory as of June 15, 2000. Table 1 on page 9 presents a list of these major landholders and the total acreage under their control.

We focused our review on the following eight state agencies:

- Department of Parks and Recreation
- Department of Fish and Game
- Department of Water Resources
- State Lands Commission
- Department of Corrections
- Department of Developmental Services
- Department of Mental Health
- Department of the Military

In addition, we visited the following Caltrans district offices that serve the high-cost counties listed:

- District 4: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma
- District 7: Los Angeles and Ventura
- District 11: San Diego
- District 12: Orange

To determine how much surplus or underused property exists in the high-cost counties, we obtained surplus property inventories from General Services and Caltrans and then evaluated the current status of the surplus properties. We reviewed the property management policies of a sample of eight agencies identified as major landowners in high-cost counties. Our assessment included determining whether these policies encourage effective management and are comparable to those used by other public entities. For this same sample of agencies, we also inquired about the agencies' procedures for designating land as surplus or underused. At Caltrans, we analyzed the annual real property retention review process at four of the five district offices serving

high-cost counties.<sup>1</sup> Generally, we found that state agencies administer all their properties in a similar fashion and do not manage properties in high-cost counties differently from properties in other counties.

We assessed whether the sample agencies had entered into any partnership agreements that provided for multiple uses of real estate, such as combining state offices with housing or child care. We found that many state agencies have this type of agreement, which allow the combining of state offices with child-care facilities, credit union facilities, or concession stands.

When analyzing the annual reports on state landholdings submitted to the Legislature, we evaluated whether the information meets reporting requirements and is useful. Finally, we examined the systems used by Caltrans and General Services to maintain statewide property inventories so that we could determine whether the inventories provide an accurate, complete accounting of the real property managed by these agencies. ■

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<sup>1</sup> We did not analyze the real property retention process at the Caltrans District 5 office in the City of San Luis Obispo, which serves the high-cost counties of Santa Barbara and Santa Cruz.

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# CHAPTER 1

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## ***Many of the Surplus Properties in High-Cost Counties Are Not Available for Disposal, and the Disposal Process Is Slow***

### CHAPTER SUMMARY

**A**lthough the inventories of the Department of General Services (General Services) and the Department of Transportation (Caltrans) include many surplus properties in counties with high real estate values (high-cost counties), the surplus status of many of the properties is questionable because some of these properties are not actually available for disposal. Additionally, disposal of surplus properties can take years. When surplus properties sit idle, the State does not benefit from funds it would receive by selling or leasing these properties, and it may incur unnecessary maintenance costs. Further, until leased or sold, these properties are not available for other purposes, such as housing.

For the 15 high-cost counties we reviewed, General Services' surplus property inventory lists 27 surplus properties, totaling 754 acres, that are authorized for disposal. However, not all of the properties are available for immediate disposal or for unrestricted use after the State disposes of them. Only 7 of the 27 properties are available for sale or have sales pending. The agencies that own 5 of the remaining 20 properties have reassessed their program needs and now want to keep them. Additionally, 11 are not available for immediate disposal, and 4 are already designated for sale or transfer to a specific entity.

Legislative and local restrictions can limit the subsequent uses of surplus property. For instance, through zoning and use entitlement designations, local governments can control how the State's surplus property is used after the State disposes of it.

Years can pass before General Services disposes of surplus property after the site has been approved for sale by the Legislature. The length of time that current surplus properties have been in the General Services inventory averages 6.7 years. Several factors contribute to delays in General Services' disposal of surplus

properties. In some cases, to facilitate timely moves into new properties or to speed exchanges for other properties with state or local agencies, state agencies declare properties surplus before the agencies are ready to vacate them. As a result, these surplus properties remain in the surplus property inventory for longer than they are actually available for sale, lease, or transfer. In addition, a local government can delay disposal while it locates interested parties to develop the property in the manner of greatest benefit to the affected local community. Finally, staffing shortages at General Services have also contributed to the department's delays in disposing of surplus properties.

Caltrans has 1,928 properties, totaling 1,829 acres, in its surplus property inventory for the 15 high-cost counties. However, this inventory is incomplete because Caltrans district offices have not recorded all of their excess property. The surplus property inventory also does not always properly reflect whether excess property is ready for sale or whether the property requires Caltrans staff to perform administrative tasks to ready it for sale.

Moreover, after Caltrans identifies a property as surplus, years may go by before the property is available for disposal. At three of the four districts we visited, Caltrans' surplus property inventory showed that properties have been pending disposal for as little as several days to as long as 50 years. In addition, sales during the last 10 years have taken less than a month to as long as 38 years from the time the property was identified as surplus to the time Caltrans sold the real estate. Caltrans places a higher priority on completing highway projects than on processing and disposing of surplus property, and this emphasis on highway projects causes some of the delays. Because the activities required to make surplus property ready for disposal require some of the same professional services as those needed when Caltrans acquires property and prepares it for highway construction, disposal activities must compete with construction project activities for staff time and resources. Although it is understandable that Caltrans places its highest priority on completing the construction of highway projects, its project management standards also address the department's making surplus property ready for sale, and its project management guidelines assign responsibility to project managers to ensure all aspects of projects are completed.

## FEW OF THE SURPLUS PROPERTIES IN GENERAL SERVICES' INVENTORY FOR HIGH-COST COUNTIES ARE CURRENTLY AVAILABLE FOR DISPOSAL

For the 15 high-cost counties, General Services' surplus property inventory currently lists 27 properties that the Legislature has authorized for disposal. These properties, owned by 11 agencies, total 754 acres. The Appendix lists these properties and their current status. Many of the properties in the surplus property inventory are not actually available for immediate disposal, and some are not available at all. Table 2 summarizes the current status of these properties.

**TABLE 2**

### Status of State-Owned Properties Located in High-Cost Counties and Authorized for Disposal by General Services

Available for disposal	3
Disposals pending	4
Not available for immediate disposal	11
Replacement facilities required first	3
Local governments attempting to acquire	3
Studies pending	4
Environmental cleanup needed	1
Legislation designated acquiring entity, and transaction has yet to take place	4
Agency using the site no longer considers the parcel excess	5
<b>Total</b>	<b>27</b>

Although 27 properties are authorized for disposal, only 7 of these properties, totaling 285 acres, are currently available for sale or have sales pending. Five of the properties, totaling 86 acres, are not available for alternate use because they are no longer considered excess by the agencies that own them. For example, the Department of Mental Health (Mental Health) has 2 properties, totaling 38 acres, in the surplus property inventory; however, Mental Health now considers the properties necessary for its program operations and plans to seek legislation to rescind their surplus status. Of its 5 properties listed in the surplus property inventory, the Department of the Military (Military) now plans to keep 3 properties totaling 48 acres.

Further, 11 of the 27 surplus properties are not available for disposal because the agencies that own them are not certain of their availability, because the properties are the subject of protracted negotiations with local governments, or because the property requires environmental cleanup. For example, the Department of Developmental Services (Developmental Services) is not certain that 2 of its properties in the surplus inventory, 1 in Orange County consisting of 32 acres and another comprising approximately 41 acres in Los Angeles County, are unnecessary for its program needs. Therefore, Developmental Services is not willing to dispose of these sites until it completes its study, due in March 2001, on how best to deliver services to its clients.

The legislation authorizing the disposal of the remaining four properties in the inventory identifies the entities that will receive the properties. Three of the four properties will not be available until the state agencies that currently own the properties vacate them.

### LEGISLATIVE AND LOCAL RESTRICTIONS CAN LIMIT THE SUBSEQUENT USES OF THE STATE'S SURPLUS PROPERTY

State legislation and local governments, through land zoning and use entitlements, can control the subsequent use of the State's surplus property. Of the 27 properties currently authorized for disposal, 2 have legislative instructions or restrictions on their use after disposal. For example, Developmental Services has identified 250 surplus acres at its Sonoma Developmental Center. The legislation authorizing the alternate use of this property states that the land may only be leased for agricultural activities or sold for open space or parkland.

Local governments can also control the future uses of the State's surplus property through zoning and use entitlements that allow only certain types of development, such as commercial or residential construction. The State does not need land use designations or entitlements from local governments to use its property for state program purposes; however, private parties that purchase surplus state property do need them. Thus, the local government with jurisdiction over the property can control how the State's surplus property is used after the State disposes of it. In addition, land use designations can affect the State's ability to sell property and the site's selling price. For example, in 1983 the Legislature approved for disposal approximately 35 acres

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*Land use designations can affect the State's ability to sell property and the price it receives.*

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at the Sonoma Developmental Center. An appraisal of the property indicated that its highest and best use was residential. However, Sonoma County was not receptive to development of any kind on the property, so the State has agreed to let Sonoma County obtain the property for use as a park or open space at half its appraised value.

Sometimes local governments restrict the land's use because of local fiscal concerns. In 1995, a consultant for General Services reported that some local government officials expressed the desire that the State's surplus property be put to uses that would generate more revenue for local treasuries than the new uses would cost for local services. The consultant stated that officials from some cities felt strongly that housing would cost more than it would produce in tax revenue for the cities. For example, a local government's cost of providing additional education, police, and fire protection services might exceed the tax revenues generated from additional housing in the community.

## GENERAL SERVICES SOMETIMES TAKES MANY YEARS TO DISPOSE OF SURPLUS PROPERTY

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*The 27 properties in high-cost counties currently listed in the General Services surplus property inventory have been on the surplus property list an average of 6.7 years.*

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After legislation authorizes disposal of a surplus property, years may pass before the site is available for alternate uses. For the 15 high-cost counties in our review, the 27 properties currently listed in the General Services surplus property inventory have appeared on this list an average of 6.7 years. In addition, for 26 properties it sold during the past 10 years, General Services took from less than 1 year to 18 years to dispose of the properties, with just over half taking 7 years or more. Various factors can slow the disposition process. For example, the owning agency may need to find a suitable replacement property, General Services may have to work with the local governments to satisfy local desires, or staffing shortages in General Services' Surplus Sales Unit (Surplus Sales) may prevent quick action. When surplus properties sit idle, the State does not benefit from funds it would receive by selling or leasing these properties, and it may incur unnecessary maintenance costs. Also, until leased or sold, these properties are not available for other purposes, such as housing.

### Agencies Prematurely Identify Properties as Surplus

To facilitate property exchanges or the purchases of new properties concurrently with the sales of unneeded or inadequate properties, some agencies seek approval to dispose of sites before the agencies

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*To facilitate property exchanges or the purchases of new properties, some agencies seek approval to dispose of properties before they are actually ready to vacate them.*

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are actually ready to vacate them, thus building in additional time between authorization and disposal. For example, Military currently has two properties on General Services' surplus property inventory, one in Santa Clara County and the other in Contra Costa County, that the Legislature authorized for disposal in 1984 and 1985, respectively. However, Military has not yet secured a suitable replacement for the Santa Clara County property and has not been able to negotiate a property exchange with the City of Concord for the Contra Costa property, so Military still uses the properties even though they were declared surplus years ago. Although General Services is authorized to dispose of these properties, its policy is, appropriately, to wait for the owning agency's approval before proceeding.

### **Local Governments' Attempts to Acquire Surplus State Properties Can Slow the Disposal Process**

The Government Code requirement that General Services offer surplus property to local governments, and General Services' attempts to accommodate these governments, can slow the disposal process. For example, the Department of Corrections (Corrections) has a 20-acre site in Los Angeles that Corrections originally acquired for a prison site. However, this department abandoned its plans for the facility and declared the property surplus. The Legislature authorized its disposal in 1992. Since then, General Services has worked with local agencies while they pursued plans to develop the property. Initially, the Los Angeles Unified School District (district) expressed interest in the site; however, after three years of study and negotiations, the district decided it was not suitable. In 1998, the City of Los Angeles (city) acquired an option to purchase the property, and the city continues its efforts to locate a buyer that will provide jobs for the community. Recently, the State extended the city's option to August 2001 to allow the city more time to pursue its plan.

### **Inadequate Staffing and Oversight by General Services Also Slow the Sale of Surplus Property**

General Services has also contributed to delays in the disposal of surplus properties because it has not always maintained adequate staffing in its Surplus Sales, which is the unit primarily responsible for selling surplus property. In addition, Surplus Sales has not always promptly assigned surplus properties to staff for disposal.

According to the manager of Surplus Sales, the unit has experienced staff turnover due to promotions, retirement, and resignations. The manager told us that during the past three years, Surplus Sales has had three different managers and has been handling all of the surplus property work with between one and three real estate officers. Surplus Sales is currently operating with only three real estate officers, although it is authorized to have four. These vacancies and staff turnover have created some confusion in Surplus Sales and have been partially responsible for the unit's falling behind in its efforts to dispose of surplus property.

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*The Surplus Sales Unit did not set up a file or assign a real estate officer to one property until 1.5 years after it was approved for sale.*

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Moreover, Surplus Sales did not act promptly to dispose of the 10 properties approved for sale effective January 1, 1999, and January 1, 2000. We found that the unit did not set up a file for or assign a real estate officer to at least one of these properties until 1.5 years after it was approved for sale. The surplus property database did not contain adequate information for us to determine how long it took to assign the other 9 properties. Although the manager of Surplus Sales could not explain why these properties were not assigned sooner, she mentioned that the unit had only two real estate officers during this time.

## **CALTRANS' INVENTORY OF SURPLUS PROPERTY IN HIGH-COST COUNTIES IS LARGE BUT INACCURATE**

Caltrans has identified a significant number of surplus properties in high-cost counties. However, its Excess Land Management System (ELMS), which serves as Caltrans' inventory of surplus properties, is incomplete. In addition, the ELMS overstates the number of properties actually available for sale.

The five Caltrans district offices that serve the 15 high-cost counties reported 1,928 surplus properties, totaling 1,829 acres, as of September 1, 2000. The sizes of these properties range from small slivers of land to several acres. Caltrans rents out some surplus properties; however, it considers most of them unrentable. Table 3 shows by district the number of surplus properties in high-cost counties and their availability for disposal as reported by the ELMS as of September 1, 2000.

**TABLE 3**

**Total Number of Caltrans' Parcels in High-Cost Counties  
and the Parcels' Availability for Disposal**

Status	District 4	District 5	District 7	District 11	District 12	Total Parcels
Available for immediate sale	229	4	411	34	92	770
Option to purchase has been signed	23	13	177	4	21	238
Holding for possible sale to public agency	1	2	0	0	4	7
Holding for possible additional right-of-way or project mitigation	81	0	40	146	2	269
Holding pending resolution of outstanding administrative or legal issues	18	1	5	10	1	35
Holding for existing environmental issues or for use as a possible mitigation site	4	6	5	0	0	15
Property rights to be conveyed to another entity	189	1	183	25	178	576
Awaiting decision to hold or dispose	17	0	0	1	0	18
<b>Total parcels</b>	<b>562</b>	<b>27</b>	<b>821</b>	<b>220</b>	<b>298</b>	<b>1,928</b>

Source: Caltrans' Excess Land Management System as of September 1, 2000.

District 4 includes the high-cost counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma.

District 5 includes the high-cost counties of Santa Barbara and Santa Cruz.

District 7 includes the high-cost counties of Los Angeles and Ventura.

District 11 includes the high-cost county of San Diego.

District 12 includes the high-cost county of Orange.

**The Excess Land Management System Does Not List All of  
Caltrans' Surplus Property**

Although Caltrans has identified a considerable amount of surplus property, the ELMS does not list all of the existing surplus property located in high-cost counties. Caltrans' Right-of-Way Manual, which dictates the policies and procedures that district offices must follow when handling surplus property, specifies that each district must maintain an accurate reporting of all excess properties in the ELMS. However, in 1997 and 1998, Caltrans expressed internally its concerns about certain surplus properties missing from this system.

We reviewed the ELMS database for four of the five districts serving high-cost counties. Two districts—District 7 in the City of Los Angeles and District 12 in the City of Irvine—had not recorded all of their surplus property. District 7 had not recorded

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*Surplus property was missing from Caltrans' database in all four districts we reviewed.*

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in the ELMS 3 of the 30 properties we tested, and District 12 had not recorded 10 of the 59 properties we tested. At the other two districts—District 4 in the City of Oakland and District 11 in the City of San Diego—we identified properties that were potentially surplus and that did not appear in the ELMS. For example, from a sample of 32 properties at District 4 in the City of Oakland, we identified 3 that appeared to be surplus but were not recorded in the ELMS. An outside consultant hired to survey the properties had identified these 3 properties as surplus. District 4 indicated that its review of the consultant's work was not complete; therefore, Caltrans staff had not entered the properties into the system. District 4 has since completed its review of these 3 properties and confirmed they are surplus more than five years after Caltrans completed the projects for which it acquired these properties. Further, at the time of our review, the property management unit in District 11, in the City of San Diego, could not tell us whether 8 of the 49 properties we tested were excess or in a project's right-of-way. Recently, the district completed its review of 6 of these properties and determined that 3 are surplus.

#### The ELMS Incorrectly Shows Many Properties Ready for Sale

Caltrans district offices do not always appropriately categorize in the ELMS the department's surplus properties, and the district offices overstate the number of properties actually available for immediate disposal. Caltrans has established standards for classifying properties, indicating which properties its staff can place in a hold category and which it can classify for immediate disposal. Properties classified as ready for immediate sale must have no issues pending, such as needed clearances, appraisals, deeds, or maps.

At three of the five districts serving high-cost counties, we reviewed properties categorized in the ELMS as available for immediate sale and determined that each district was overstating the number of properties in this category. At District 7 we sampled 23 properties and determined that this classification was not appropriate for 15 of the properties. Caltrans was incorporating 1 property into a project's right-of-way and withholding 4 properties from disposal because of an existing lease agreement. In addition, 5 properties were pending possible sale to a local agency, and 5 properties required the completion of appraisals or maps. For similar reasons, district staff had incorrectly classified as available for immediate sale at least 2 of the 19 properties we reviewed in District 11 and all 22 of the properties we reviewed

in District 4. Although we did not review a sample of properties categorized as available for immediate sale in District 12, district staff indicated that they use this category for properties with outstanding issues so as to encourage more expeditious disposals. Such practices cause the ELMS to overstate the number of surplus properties available for disposal and to understate the number of properties with outstanding issues that require resolution before Caltrans can dispose of the properties.

### **CALTRANS SOMETIMES TAKES MANY YEARS TO DISPOSE OF SURPLUS PROPERTY**

After Caltrans identifies a property as surplus, years may pass before the property is available for disposal. At three of the four districts we visited, the ELMS system reported that Caltrans' current inventory of surplus property had been pending disposal for as little as several days to as long as 50 years. In addition, sales during the last 10 years have taken from less than a month to as long as 38 years from the time the property was identified as surplus to the time it was sold.<sup>2</sup> According to district program managers, Caltrans places a higher priority on constructing highway projects than it does on processing and disposing of surplus property. Disposal activities must compete with construction project activities for staff time and resources because the activities required to make surplus property ready for disposal require some of the same professional services as those Caltrans needs when acquiring property and preparing property for highway construction. Caltrans performs such disposal tasks as preparing surveys, appraisals, maps, and deeds when its schedules for its highway project construction allow. Although it is understandable that Caltrans places its highest priority on the construction of highway projects, its project management standards also cover the department's making surplus property ready for sale, and its project management guidelines assign responsibility to project managers to ensure that Caltrans completes all aspects of projects. When delays occur in the sales of surplus properties, Caltrans, which retains the proceeds from such sales, does not have these funds available to address other needs of the department.

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*Caltrans' Excess Land Management System reports that some properties have been pending disposal for as little as several days to as much as 50 years.*

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For the majority of their properties, two of the four Caltrans regional districts we visited did not enter in the ELMS the dates on which the real estate was declared surplus (surplus date).

<sup>2</sup> This information does not include those parcels for which ELMS does not report a surplus date. In addition, it does not include easements, relinquishments of Caltrans' property rights, or property covered by a lease agreement.

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*When the sale of surplus properties is delayed, Caltrans, who retains the proceeds from such sales, does not have these funds available to address its other needs.*

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Thus, we were only able to determine the general ranges of time these districts took to dispose of surplus property and could not assess how prevalent delays have been. For example, District 11 recorded the surplus dates in its system for only about 11 percent of its current inventory, and about 37 percent of its property sold during the last 10 years. However, the ELMS provided the surplus dates for at least 75 percent of District 4's surplus inventory and sales, so we were able to determine more precisely how prevalent disposal delays are for this one district. Using the available surplus dates, we calculated how many years District 4 has taken to prepare its current inventory for disposal and how many years the district took to process the property it sold during the past 10 years.

The disposal of surplus property can be a time-consuming process for District 4. As Table 4 shows, of the property the district disposed of in the last 10 years, the vast majority has sold in less than 5 years. However, more than half of the property currently in its inventory has been pending disposal for more than 6 years. Our review of a sample of surplus property revealed that some of these properties have experienced administrative delays, including the need for Caltrans to negotiate cooperative agreements and property exchanges or to conduct environmental testing.

Even though the ELMS lacked sufficient information for us to determine the prevalence of delays for the other two districts we visited, additional information we gathered indicates that these districts can also take years to dispose of surplus property. The disposal process for some properties we reviewed at District 7 has experienced administrative delays in such activities as performing appraisals and surveying properties. These postponements occur because the surplus properties must compete for staff attention with active transportation projects that are higher priorities for the district. In addition, District 7 set aside some of its properties for a number of years without making an effort to dispose of them. The district attributed some of these delays to a significant reduction in staff that it experienced two to three years ago. We discovered a similar problem at District 11, which had some surplus properties that remained in Caltrans' inventory for up to 4 years without the district's making an effort to dispose of them. District 11 indicated that these delays were the result of a departmentwide focus on project delivery. Staff turnover and inadequate staff training also slowed the disposal process.

**TABLE 4**

**Years Pending Disposal for District 4 Surplus Properties  
in Inventory as of August 2000 and for  
Properties Sold During the Past 10 Years**

Surplus Property Inventory as of August 2000		
Years Pending Disposal	Number of Parcels*	Percentage of Total Parcels
0-5	151	48
6-10	31	10
11-15	30	10
16-20	14	4
21-25	17	5
26-30	68	22
31-35	3	1

  

Surplus Property Sold During the Past 10 Years		
Years Pending Disposal	Number of Parcels*	Percentage of Total Parcels
0-5	219	84
6-10	26	10
11-15	2	1
16-20	4	2
21-25	5	2
26-30	2	1

Source: Caltrans' Excess Land Management System.

\* This information does not include parcels for which the ELMS does not list surplus dates. The figures also do not represent easements, relinquishments of Caltrans' property rights, or property covered by lease agreements.

In addition to these examples of delays in property disposal that occurred at the Caltrans districts we visited, other descriptions of hindrances to Caltrans' disposition of surplus property appear in a 1999 report issued by Caltrans' Asset Management Branch. This document describes long delays in Caltrans' obtaining environmental clearances for some maintenance stations that it sold as well as long waits for appraisals and other administrative tasks needed before districts could dispose of property. The report voices districts' frustration with limited staffing and financial resources for conducting timely environmental assessments and cleanup of surplus property.

## RECOMMENDATIONS

To help dispose of the State's surplus real estate in a timely manner, General Services should fill the vacant positions in its unit responsible for selling, leasing, or exchanging surplus properties. General Services should also promptly assign to staff the properties that require disposal.

Caltrans should take the necessary steps to make certain that it properly accounts for and disposes of surplus property as rapidly as possible. These steps should include making sure that Caltrans staff promptly includes and correctly categorizes in its ELMS all surplus property. In addition, Caltrans should develop methods to ensure that it completes all aspects of highway projects, including the prompt disposal of surplus property. In light of its competing priorities, Caltrans might consider such alternatives as reassigning staff, hiring temporary staff or contractors, or seeking additional resources to perform some of the activities needed to identify and prepare surplus property for disposal. ■

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## CHAPTER 2

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### *The State's Approach to Identifying Surplus Real Property Continues to Be Inadequate*

#### CHAPTER SUMMARY

Previous studies, including those performed by the Office of the Auditor General (Auditor General) and the Little Hoover Commission (Little Hoover), have expressed much concern over the State's property management practices and have offered many suggestions for improvement. In spite of these studies and the actions taken by the State in response to their findings, the State's agencies still lack an effective process for evaluating their need for the properties they own and for identifying surplus property. When surplus properties remain unidentified, the State does not benefit from funds it would receive by selling or leasing these properties, and it may incur unnecessary maintenance costs. Also, until leased or sold, these properties are not available for other purposes, such as housing, parks, or open space.

The agencies' efforts are inadequate, in part, because the State lacks oversight of property management activities designed to ensure that landowning State agencies are diligently reviewing their property holdings and identifying property that is surplus to their program needs. Although the Department of General Services (General Services) is responsible for collecting information on surplus properties that agencies have reported, General Services does not have the authority to require agencies to perform properly the annual reviews of their property holdings, nor does it have the authority to review or question decisions other agencies make regarding their properties' retention or status. Studies of the State's property by General Services suggest that state agencies have not been effective in identifying surplus property. In a 1995 study mandated by the Legislature, General Services identified 123 unused or underused properties owned by 12 agencies that the owning agencies had not identified as surplus. This situation occurred even though the State's agencies have been required since 1988 to review their property holdings annually.

Most landowning state agencies must report surplus property to General Services for disposal. Although these agencies are responsible for conducting annual reviews of their property holdings to identify surplus property, they generally have not developed and implemented adequate procedures for doing so. Also, few incentives exist for most agencies to actively identify and dispose of surplus property because the proceeds from most property sales do not benefit the selling agency but are deposited in the State's General Fund.

The few agencies, such as the Department of Transportation (Caltrans), that report their surplus property to specific oversight commissions rather than to General Services have not performed adequate reviews of their property holdings. Although Caltrans has developed procedures that are generally adequate for reviewing its properties, a lack of commitment from management has led to the failure of Caltrans district offices to follow those procedures consistently resulting in some offices' neglecting to perform adequate reviews of their property holdings. In addition, unreliable inventory reports hinder Caltrans' efforts to review property retention.

The State could improve its real estate management by implementing practices used by other government entities. Various state governments and the federal government employ diverse practices to meet the challenges of managing real estate assets, and these practices include the tasks involved in identifying and disposing of surplus property. One common suggestion from state governments and the federal government to improve surplus property decisions is the use of an independent body to review property retention processes and criteria and to arbitrate property retention decisions.

#### **PREVIOUS STUDIES HAVE CRITICIZED THE STATE'S PROPERTY MANAGEMENT PRACTICES, AND EXECUTIVE ORDERS HAVE ATTEMPTED TO GUIDE THESE PRACTICES**

Over the years, various studies expressed much concern over the State's property management practices, and the resulting reports offered many suggestions for improvement. In spite of these studies of the State's property management practices and the actions taken by the State to address their findings, our audit revealed that the State still lacks an effective process for identifying surplus property.

In response to legislation requiring a project to determine how the State might implement an aggressive program for real estate management, a consultant reported in 1988 that to be successful, a program of this nature must have certain key factors as its foundation. These factors include clear, measurable goals; flexibility so that agencies can adapt to changes in real estate markets; incentives for agencies to participate and to strive for improvement; the support of the private sector and the public; and clearly defined authority and responsibility. To improve the State's management of its real property assets, the consultant recommended that the State establish a new public entity with a governing board that would perform many duties, such as providing space and land use information, acting as a coordinator among agencies owning real property, and reviewing and monitoring the asset management plans of all state agencies.

Further, the Auditor General reported in 1990 that General Services needed to improve its management of state leases and real estate holdings. One of the Auditor General's findings was that General Services had failed to review the State's properties periodically and independently to determine whether state agencies were identifying all excess land. This report recommended that General Services determine the staffing requirements necessary for identifying potential surplus property, redirect staff or request additional staff for these reviews, periodically inspect state lands, and report potential surpluses to the Legislature.

For many years, the Little Hoover has advocated reform of the State's real property management practices, including the effective identification of surplus property. In its 1995 report, Little Hoover found that the State had a tradition of being a custodial manager of its property, seldom taking advantage of opportunities to generate revenue or otherwise maximize the use of its real property. Little Hoover also found that despite years of effort, the State had not found the right mechanism for identifying and disposing of its surplus property. Little Hoover recommended that the State make a number of changes to its property management approach, including establishing an independent public or quasi-public corporation to manage its properties and to provide needed facilities. It further recommended that the State look into competition, incentives, and outside contracting as ways to encourage innovation and to provide managers with the tools needed to make good decisions and implement state policies.

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*Five years ago, the Little Hoover Commission reported that, despite years of efforts, the State had not found the right mechanism for identifying and disposing of its surplus property.*

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*Executive orders outline the State's policy to actively manage its property to achieve each property's highest and best use and to achieve maximum value from surplus property.*

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Not only did reports point to problems in the State's identification and disposal of excess real estate, but two different governors also issued executive orders with the intention of improving the State's property management. A 1989 executive order outlined the State's policy to manage its property actively so that the State could achieve each property's highest and best use. In addition, it required all agencies, departments, boards, and commissions to take appropriate action to manage their property in a manner consistent with the State's policy. A 1991 executive order further defined the State's policy to achieve the comprehensive management of the State's diverse portfolio of real property to ensure optimal use for the State's operations and maximum value from surplus property. The policy called for consolidating operations in joint-use facilities when feasible and for using General Services' Statewide Property Inventory as the State's central information system for real estate management.

In addition, these executive orders called for an independent entity, the Office of Asset Management, to oversee property management activities, and the orders established the Asset Management Coordinating Council (council) to provide recommendations to the governor on statewide issues concerning real estate management. The council's duties included reviewing and commenting on the State's major real estate needs with a view toward managing the State's real property for the benefit of the State as a whole. After a few years, however, the Office of Asset Management closed, and a functioning council no longer exists.

### **NO AGENCY HAS THE AUTHORITY TO ENSURE THAT OTHER AGENCIES REVIEW THEIR PROPERTIES AND IDENTIFY SURPLUSES**

The State has not clearly assigned to one agency the responsibility for overseeing property management activities to ensure that landowning state agencies are adequately reviewing their real estate holdings and identifying properties that the agencies do not require for their program needs. Although the law requires General Services to collect and report information on surplus property, General Services has no authority to enforce the legal requirement that other state agencies review their real estate holdings and report excess real estate. In addition, aside from what is written in the law, General Services does not provide, nor is it required to provide, guidelines to state agencies to help

them meet their obligations to review their real estate holdings annually and to report any surplus property. Furthermore, the authority to make decisions to retain properties or to declare them surplus rests with individual agencies. No entity has the authority to review or question these decisions. Although General Services is responsible for disposing of much of the State's surplus property, it cannot do so until the agencies that control property declare their excess properties and until legislation grants General Services the authority to act.

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*Although state agencies are required to review their property holdings annually, in a 1995 study, General Services identified 123 unused or underused properties that had not been identified as such by the 12 agencies that owned them.*

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Studies of the State's property conducted by General Services suggest that state agencies have not been effective in identifying surplus property. Since 1988, the law has required the State's agencies to review their property holdings annually and to identify surplus property. However, in a 1995 study mandated by the Legislature, General Services identified 123 unused or underused properties owned by 12 agencies. The agencies had not previously identified these properties as unused or underused. Nineteen of these properties were located in high-cost counties. Since 1995, 8 of these 19 properties have been wholly or partially disposed of or have sales pending. The fact that General Services identified excess and underused properties demonstrates that agencies, on their own, had not done an adequate job of evaluating their real estate for excess.

Although General Services was successful in identifying surplus properties that state agencies had not, it does not have any responsibility under the law to conduct further reviews. According to the deputy director of its Real Estate Services Division, General Services also does not have any plans—or the necessary resources—for completing similar undertakings. Nevertheless, he agrees there may be a need for such reviews.

## **STATE AGENCIES ARE INCONSISTENT IN CONDUCTING PROPERTY REVIEWS AND IN PREPARING LAND MANAGEMENT PLANS**

Without guidance or oversight, state agencies use inconsistent methodologies and apply varying degrees of diligence in reviewing their real estate. Despite executive orders stressing the importance of property management, many state agencies with large landholdings in high-cost counties have not developed procedures for evaluating their holdings and for identifying property that is surplus to their current and foreseeable program needs. In

addition, these agencies generally do not prepare, monitor, or update land management plans. As a result, the State may be missing opportunities to improve the value and function of its surplus property.

**Some Agencies Do Not Evaluate Properties to Identify Surpluses, and Those That Do Use Questionable Processes**

Many state agencies have failed to develop adequate procedures for identifying surplus property. We queried 8 of the 13 agencies with large landholdings in the 15 high-cost counties. None of the 8 agencies had developed written procedures for performing the reviews. In addition, only 5 of the 8 agencies stated that they annually review real estate for surplus, and 1 agency is exempt from this requirement. Table 5 shows the results of our inquiry.

**TABLE 5**

**Survey of Eight State Agencies With Large Landholdings in High-Cost Counties**

Agency	Agency Has Written Procedures for Evaluating Holdings for Surplus	Agency Evaluates Property for Surplus Annually
Corrections	No	Yes*
Developmental Services	No	Yes*
Fish and Game	No	Yes*
Mental Health	No	Yes*
Military	No	No
Parks and Recreation	No	Yes*
State Lands Commission	No	N/A
Water Resources	No	No

\* Although agency officials told us they completed annual evaluations, the officials could not provide evidence of the reviews.

N/A: The State Lands Commission is exempt from this requirement.

Of the seven agencies required to perform annual property reviews to identify surplus property, two agencies do not perform them. They told us they do not do so because they have little or no surplus property. For example, according to the chief of the real estate branch of the Department of Water Resources (Water Resources), the branch conducts reviews infrequently

because its previous reviews identified a low number of excess or underused properties. However, in our review of only 10 of Water Resources' real estate holdings, we found a 7.55-acre surplus property in Solano County that the agency had overlooked for more than 10 years. According to the chief of the real estate branch, the property has restricted access, and past attempts to sell it to adjacent landowners were unsuccessful. Because of higher priorities, Water Resources discontinued its efforts to dispose of this property and eventually forgot about it. Although this property may have limited potential for disposal, the fact that we found it so easily suggests a need for better, more frequent reviews.

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*Of the eight agencies we queried, two did not perform annual property reviews, five do not retain detailed evidence of their reviews, and one is exempt from conducting these reviews.*

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The five agencies stating that they perform annual reviews of their property had not retained any detailed evidence of past reviews. Therefore, we could not evaluate the effectiveness of their efforts. However, for at least one of the agencies, the Department of Corrections (Corrections), we found evidence suggesting that these reviews are inadequate. The deputy director of this agency's Facilities and Business Development Division told us that Corrections annually reviews facility site plans to determine whether excess or underused property exists. The deputy director further stated that because of its growing program and the difficulty in finding prison sites, Corrections has generally taken the approach of saving most unused property for possible expansion of the prison system. However, during its 1995 study, General Services identified as potential surplus some underused property at the California Institution for Men (institution) that Corrections had not previously reported as surplus. Since then, General Services, in cooperation with Corrections, has completed a detailed study of the institution's property and identified 350 acres of land not required for Corrections' needs. The land, formerly used for agricultural purposes, is valued at approximately \$60 million. Corrections has since declared the 350 acres surplus, and General Services has obtained legislative approval to dispose of this land. The identification of this surplus property with the assistance of General Services and the approval of the property's disposal demonstrates that Correction's annual property reviews alone are not adequate to ensure that Corrections does not keep property that it does not need.

## General Services Has Not Undertaken a Complete Review of Its Own Real Estate Holdings

Although General Services is not an agency with large landholdings, we analyzed its process for conducting annual property evaluations because it plays a significant role in the disposal of the State's surplus property. General Services does not conduct an annual review of its own holdings, citing that it is very familiar with the properties because it has property management staff located in many of its buildings. We reviewed all of General Services' 19 properties in high-cost counties and found that it was unaware that it owned 1 property consisting of four separate parcels totaling 0.61 acres in San Francisco. Each of the four General Services parcels is paved and connected to parking lots owned by Caltrans but leased to entities that are not state agencies. The users of the Caltrans lots are also parking in the General Services' parcels. Because General Services was unaware that it owned these lots, it has not collected rents on the parcels.

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*We found one property totaling 0.61 acres in San Francisco that General Services was unaware it owned.*

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## Limited Long-Range Planning May Hinder Agencies' Ability to Ensure Properties Meet Their Needs

Some agencies with major landholdings do not periodically prepare, monitor, and update land management plans. Such plans describe a department's goals and strategies for managing the land it acquires and may include such information as proposed use, maintenance schedules, and staffing needs. Although no statewide mandate exists requiring agencies to prepare land management plans or master plans for land and facilities, such plans, when monitored and kept current, help agencies identify current and future uses of the properties and ensure that agencies adequately manage the real estate to meet their needs.

In our June 2000 report titled *California's Wildlife Habitat and Ecosystem: The State Needs to Improve Its Land Acquisition Planning and Oversight*, we reported that both the Department of Fish and Game and the Department of Parks and Recreation have no management plans for at least one-third of the properties the agencies own. We further reported that the agencies have not often updated existing plans to account for changes in the condition of the land or changes in land use. These departments also lack uniform procedures to manage land to ensure that they are meeting their goals and strategies. Consequently, they have lost useful tools for knowing whether they are properly managing properties for their intended purposes.

Of the remaining six agencies we reviewed with large landholdings in high-cost counties, only three have made efforts to prepare land management plans or master plans for some or all of their land and facilities. In 1998, the Department of Developmental Services (Developmental Services), with the help of General Services, completed a master plan of its land and facilities. The Department of the Military (Military) is in the process of preparing a master plan for its land and facilities and expects to complete its efforts in 2003. The State Lands Commission has prepared land management plans for 2 of its 1,200 properties statewide. The chief of the commission's Land Management Division told us that the remaining properties are either governed by laws or memorandums with other public agencies or have little or no economic value and do not warrant preparation of management plans. Another agency, the Department of Mental Health (Mental Health), stated that preparing land management plans is not feasible. Its chief of hospital operations stated that the cost of long-range planning for land management prevents Mental Health from undertaking such studies.

#### STATE AGENCIES HAVE LITTLE INCENTIVE TO IDENTIFY AND DISPOSE OF SURPLUS PROPERTY

Most agencies have few if any incentives to identify and dispose of unneeded property. The law requires that the proceeds from many surplus property sales be deposited in the State's General Fund. As a result, the selling agency does not receive any portion of the sales proceeds. Studies to evaluate facilities and landholdings are costly to perform, leaving agencies such as Developmental Services to provide the funding for land management planning from budget allotments for facilities maintenance.

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*The law requires that the proceeds from many surplus property sales be deposited in the State's General Fund; thus, the selling agency does not receive any portion of the sales proceeds.*

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Even agencies that are able to retain the proceeds from the sale of surplus property are sometimes disinclined to dispose of such property. This situation occurs when other state or local agencies seek to obtain the property for less than fair market value or for no compensation. In such a case, the landowning agency might not receive enough from the sale to fund replacement facilities or needed improvements in existing facilities. For example, when the City of Santa Cruz began efforts to acquire the Santa Cruz Armory for less than fair market value, Military, which is able to retain the proceeds from the sale of its property, decided to keep the facility to avoid giving up this valuable asset for an amount that would be inadequate to procure a replacement facility.

## CALTRANS DOES NOT EFFECTIVELY IDENTIFY AND MONITOR SURPLUS REAL PROPERTY

The Asset Management Branch (branch) of Caltrans' headquarters office is responsible for coordinating, compiling, and reporting each district's annual evaluation of its real property holdings (retention reviews). However, repeated findings by the branch suggest that Caltrans management is not effectively administering the annual retention reviews and thus has not made an adequate commitment to the management of excess properties. In addition, district offices do not adequately follow department procedures to identify and monitor surplus buildings, facilities, and properties acquired for future highway projects. Further, Caltrans has not developed reliable inventory reports for district offices to use as the basis for their annual property reviews. Although the branch has developed procedures for property reviews that are generally adequate, the procedures could use some improvement. Consequently, Caltrans cannot be certain that it has identified all surplus property, the disposal of which would generate funds that Caltrans could use to meet its other needs.

### Annual Reviews of Real Property Retention Reflect Caltrans' Lack of Commitment to Managing Surplus Property

Annual reports prepared by the branch present recurring issues that surface during the annual retention reviews of Caltrans' real estate and suggest that Caltrans management does not place a high priority on managing surplus property. As early as 1997, the branch raised concerns about the continued inaccuracy of Caltrans' Right-of-Way Property Management System because the system incorrectly included properties used in completed highway projects and properties that had been sold. The 1999 annual report indicated that these inaccuracies were the result of district offices' failing to update the system to reflect property transactions and of data-entry errors and omissions. Finally, for the past three years the branch has reported problems with districts' neglecting to submit reports of retained property in time for review by headquarters.

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*Annual reports have expressed concerns about the continued inaccuracy of Caltrans' Right-of-Way Property Management System and long delays in preparing surplus properties for disposal.*

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The branch coordinates the annual retention review effort, but the district offices carry out the reviews. The duties of each district's asset manager include gaining a complete understanding of the retention review process, tracking properties recommended for disposal, and ensuring that properties retained are appropriately managed. However, neither the branch nor the district asset managers have authority over the various units within

each district that participate in the retention process, and they therefore must rely on the cooperation of these units, as well as on sponsorship from district management and headquarters, to ensure the quality of the reviews. In this environment, without improved sponsorship from management, future retention reviews will likely suffer the same inadequacies.

### District Offices Do Not Perform Complete or Consistent Property Retention Reviews

We reviewed the 1999 retention reviews for four of the five Caltrans districts serving high-cost counties and found a wide disparity in the diligence of the districts' efforts, with none of the districts sufficiently performing all the steps required. The retention review guidelines require each district to review all facilities listed in the Asset Management Inventory (AMI) for surplus or underused property. The AMI itemizes the assets Caltrans uses for supporting highway projects. These assets include buildings, maintenance facilities, storage yards, and park-and-ride facilities. Table 6 lists the number of facilities of each type in each district we reviewed as reported in the AMI in February 2000.

**TABLE 6**

**State-Owned Properties Located in High-Cost Counties and Listed in Caltrans' Asset Management Inventory System**

Holdings	District 4	District 7	District 11	District 12
Equipment shop	4	3	2	1
Lab	4	2	1	8
Maintenance station	63	64	18	0
Material site	0	0	7	0
Mitigation site	14	20	0	0
Office	6	7	3	2
Park and ride	55	53	61	3
Resident engineer office	22	37	7	10
Rest area	3	2	7	0
Telecommunications site	28	18	15	0
Toll plaza	9	1	1	0
Vista site	9	1	0	0
Weigh station	16	12	7	2

Source: Caltrans' Asset Management Inventory database as of February 2000.

Of the four districts we visited, none sufficiently reviewed all facilities listed in the AMI for surplus or underused property. Specifically, two of the districts verified the number of some types of facilities reported in the AMI, such as maintenance stations and park-and-ride lots; however, these efforts did not address the use of these facilities and therefore did not identify surplus or underused property. Two districts made some effort beyond verifying the number of AMI facilities, but these efforts were limited. District 4 reviewed 16 of its 63 maintenance stations, and District 7 reviewed 16 of its 64 maintenance stations and initiated a review of its park-and-ride lots. A final decision regarding possible underuse of these lots is still outstanding. Because these efforts were limited to a small number of AMI facilities, they were not sufficient for the districts to identify excess property listed in the inventory system.

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*None of the Caltrans districts we visited sufficiently reviewed all of the facilities listed in the facilities database for surplus or underused properties.*

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Furthermore, not all districts sufficiently reviewed their real property holdings related to future highway projects that have not yet been advertised for bids from construction contractors. District 4 identified the properties it holds but limited its review to the information contained in the district's inventory systems. It did not query the various units involved with the projects. Without this additional information, District 4 cannot be assured that its decisions regarding the use of properties held for future projects are based on the most recent and complete information available.

Finally, during the 1999 retention review process, districts 4 and 11 did not have asset managers to oversee the effective management of the districts' real property assets. The purpose of a district's asset manager is to ensure that the district handles its real property holdings effectively. The asset manager must have a complete understanding of the retention review process, prepare property information needed for the annual retention reviews, and ensure that the district implements decisions made at the meetings. Because of vacancies in this critical role, District 4 did not prepare all the property information needed for its review. Moreover, at the time of our review in August 2000, District 11 had not yet implemented decisions it made in February 2000.

### **Unreliable ELMS Inventory Reports Hinder Annual Property Reviews**

An inaccurate inventory report from Caltrans' Excess Land Management System (ELMS) is hindering each district's retention review. As Chapter 1 discusses, the four districts we visited are not accurately reflecting the current status of their surplus

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*Since Caltrans' retention guidelines limit annual reviews to surplus property being withheld from disposal, any retained property that is incorrectly categorized as available for immediate sale would not undergo a review.*

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property. Specifically, these four districts are overstating the number of properties available for immediate sale while understating the number of properties that Caltrans needs to retain. Because the retention guidelines limit annual reviews to surplus property that is withheld from disposal, any retained property that the ELMS incorrectly categorizes as available for immediate sale does not undergo a review.

In some districts, properties appear in the wrong category because the districts are not recording in the ELMS many of the inventory changes that result from retention decisions. For example, during its retention review committee meeting in February 2000, District 11 determined that it was necessary to withhold 66 surplus properties from disposal. However, as of July 2000, this district had not updated the ELMS to reflect these decisions. Thus, 65 of these properties appeared as available for immediate sale in the ELMS inventory report. A similar situation occurred in District 7, where the asset manager determined that decisions made in January 2000 to hold at least 81 surplus properties were still not reflected in the ELMS as of July 2000. All 81 subsequently appeared in the inventory report as available for immediate sale.

### **Caltrans Can Improve Its Guidelines for Identifying and Monitoring Surplus Real Property**

In general, the retention review guidelines (guidelines) established by Caltrans provide sufficient guidance for identifying and monitoring surplus real property. We noted, however, a few areas that would benefit from the development of more defined procedures. The guidelines charge each district with conducting a comprehensive annual real property review to ensure that management knows what real estate Caltrans owns, why Caltrans acquired the site, and whether it meets a current or future need of the department. District offices are instructed to conduct reviews of their property holdings and to prepare reports reflecting the status of their buildings and facilities, of surplus property classified in a hold category, and of property held for future highway projects that have not yet been advertised for construction (unadvertised projects).

One area in which Caltrans' guidelines for property retention reviews could be improved relates to buildings and facilities reported in the AMI. The guidelines for conducting the reviews do not provide sufficient procedures to ensure district retention decisions address whether property contained in the AMI is

underused. Instead, the guidelines simply call for the district to determine whether real property is *in use*, or providing transportation services or facilities for employees, equipment, or materials. In contrast, the guidelines for evaluating property held for unadvertised future projects provide sufficient detail for such decisions, indicating that they should be based on state and federal programming documents, such as the state and federal transportation improvement plans. Because districts lack adequate guidance for determining the underuse of AMI facilities, a potential still exists that districts will not report underused facilities.

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*Because Caltrans' guidelines do not provide sufficient procedures to ensure district decisions address whether property contained in the facilities database is underused, a potential exists that underused facilities will go unreported.*

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The guidelines are also unclear regarding how often a district should review a surplus property withheld from disposal so that the district ensures that delaying disposal of the property is still appropriate. Specifically, the guidelines require that when a property is withheld from disposal, the various units involved in property retention are to provide periodic reports and action plans detailing how the property will be used before disposal and what actions will prepare it for disposal. However, these guidelines do not indicate how often such reports should be completed or what form they should take. In fact, we discovered that in many cases districts are not preparing these periodic reports or action plans. Without such guidance, Caltrans cannot ensure that the monitoring of surplus properties withheld from disposal is timely and sufficient.

Additionally, Caltrans has not adopted into its guidelines any procedures to identify surplus noninventory properties. Noninventory properties represent real property that Caltrans controls but does not own, such as property it acquires for regional transportation projects using local funds. The current guidelines do not address these properties but limit district reviews to facilities listed in the AMI, surplus property conditionally retained, and inventory property held for unadvertised projects. Caltrans identified this omission during its 1998 retention review and recommended in its annual report that future retention reviews include such properties so that the department can manage these resources more effectively. Caltrans has not yet implemented this recommendation, however. As a result, some districts evaluate noninventory properties to identify surplus, and others do not.

## THE STATE COULD IMPROVE ITS REAL ESTATE MANAGEMENT BY IMPLEMENTING BEST PRACTICES PROPOSED BY OTHER GOVERNMENT ENTITIES

The State of California is not the only government facing dilemmas in administering its real property. Indeed, effective real estate management has been a challenge for other state and federal government agencies. Some have implemented or proposed a variety of practices to meet the challenges of managing real estate assets, including the identification and disposal of surplus properties. Like California, these governments have cited various problems, such as a lack of specific procedures for determining when real estate is no longer needed, a lack of incentives for spending resources to identify and dispose of surplus property, and delays in disposing of surplus properties. To remedy these land management problems, other governments have proposed various options for managing real estate.

Other governments have implemented or proposed developing standards and criteria for defining surplus or marginally used property. For example, the Auditors of Public Accounts of the State of Connecticut made such a recommendation when they found that a lack of standards, criteria, or processes for identifying surplus or marginally used property was an underlying reason that surplus property sat idle for long periods of time.

In addition, other governments have cited the lack of financial incentives for disposing of surplus property and have implemented or proposed diverse solutions. These remedies include allowing agencies to retain some or all of the proceeds from property disposal to purchase new facilities, to fund capital improvements or other nonrecurring expenses, or to fund the expense of future disposals. In 1998, the federal government established pilot programs that sought to allow agencies to retain proceeds from property sales so that the agencies could fund future disposal efforts.

Some governments have found that identifying and disposing of surplus property is better accomplished through a centralized system rather than through allowing individual agencies to determine when property is surplus. At least three states have established or proposed independent bodies to oversee the identification and disposal of excess properties, review periodic land use plans, ensure that land is used for its intended purpose, and advise agencies on land management matters. For instance, the State of Texas created an asset management division in its

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*At least three states have established or proposed independent bodies to oversee land management matters.*

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General Land Office (GLO) to evaluate the real property holdings of its state agencies every four years and to make recommendations to the Legislature and governor regarding the properties' use and disposition. After the GLO develops a list of state-owned properties it has identified as unused or underused, state agencies are allowed 60 days to submit a development plan for the property. Once the GLO submits its final report, the governor has 90 days to either approve or disapprove the sale of land.

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*Texas created an asset management entity to evaluate the real property holdings of its state agencies every four years and to make recommendations to the Legislature and governor regarding the properties' use and disposition.*

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Similarly, Virginia created the Governor's Commission on Surplus Property (commission) to provide advice on the use of real property assets controlled by state agencies. The commission recommended the establishment of a Land Management and Stewardship Council with independent power. The primary duties of this council will be examining the use of state-owned land and developing criteria for determining whether state-owned land is surplus.

Like Virginia's proposed commission, Florida's Land Management Advisory Council is responsible for reviewing land and recommending whether it should be disposed of by the State. Further, Florida requires each state agency to submit a land management plan every five years.

In 1990, the federal government enacted legislation to provide a fair process that would result in the timely closure and realignment of surplus or underused military installations across the nation. The General Accounting Office reviewed this legislation and found it provided sound criteria for identifying surplus and underused bases for closure and realignment. Some key elements of the legislation included the establishment of an independent commission, the development of clearly articulated criteria for decision making, the requirement that decisions rely on the use of certifiably accurate data, and the establishment of tight time frames. For achieving success, officials of the independent commission stressed the importance of strong, decisive leadership and the need for a fair, open process that promotes consistency in the application of the decision-making criteria. The criteria used to identify surplus or underused military facilities included the review of current and future operational needs, the availability and condition of existing and alternative sites, and an analysis to compare the cost of a closure or realignment with the projected benefit.

## RECOMMENDATIONS

To provide consistency and quality control over the review of the State's real property holdings, the Legislature should consider empowering an existing agency or creating a new commission or authority with the following responsibilities:

- Establishing standards for the frequency and content of property reviews and land management plans.
- Monitoring agencies' compliance with the standards.
- Scrutinizing agencies' property retention decisions.

Alternatively, this entity could be responsible for periodically conducting reviews of the State's real property and making recommendations to the Legislature regarding the property's retention or disposal.

If the Legislature does not wish to establish such an oversight entity, it should consider replacing the current requirement for annual property reviews with a requirement for less frequent but more comprehensive reviews.

The Legislature should also consider providing incentives to state agencies to encourage them to identify surplus and underused property so that they free the real estate for better uses. Such incentives could include allowing agencies to retain the proceeds from the disposition of surplus properties for use either in funding current or planned capital outlays for new property or in improving and modernizing existing facilities when the need exists. Additionally, when agencies need to acquire or improve facilities, incentives for disposing of excess property could include guaranteeing agencies the market value for the surplus property they sell or transfer.

To ensure that it adequately reviews its real property holdings and identifies surplus properties, Caltrans management should improve its support for the retention reviews conducted by its districts. Caltrans should seek to improve the reviews in the following ways:

- Make certain that the various units at district offices adequately participate in and work together to administer effectively the annual reviews of real property retention.

- Ensure that district offices follow the retention review guidelines and maintain asset managers to provide year-round coordination of the management of surplus property and to improve the quality of annual retention review efforts.
- Revise the retention review guidelines so that they include the following elements:
  - ◆ Specific criteria for districts to evaluate the buildings and facilities listed in the AMI.
  - ◆ Procedures for ensuring that the ongoing monitoring of surplus property withheld from disposal is sufficient and appropriate.
  - ◆ Steps for reviewing noninventory property to ensure that the department needs the property for future highway projects. ■

## CHAPTER 3

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### ***The Property Inventory Systems of State Agencies Do Not Provide Effective Property Management Tools or Reliable Reports***

#### CHAPTER SUMMARY

**I**n 1987, the Legislature directed the Department of General Services (General Services) to create a centralized information system to improve California's management of its real property holdings. Known as the Statewide Property Inventory (inventory), this system began operating the following year. However, the inventory is not yet an effective property management tool because reporting agencies do not cooperate with General Services to ensure that the inventory includes all property owned by the State. In addition, the inventory does not list required property characteristics and property use information. General Services also lacks a complete central record of unused or underused property to assist in monitoring the department's progress in selling or enhancing the use of those properties.

Similarly, the Department of Transportation (Caltrans) does not maintain complete, current databases on real property. Consequently, the databases do not provide sufficient information to aid Caltrans districts in managing their real property.

Because real property reports, including reports to the Legislature and General Services, rely on the information in these databases, the reports do not provide complete, accurate, or current information. The reports could also furnish more useful information about the status of surplus property and about barriers to the disposal of the property. In addition, General Services is not prompt in completing its annual report to the Legislature on the status of surplus property. Finally, Caltrans does not always produce the annual reports it is required to submit to General Services. Therefore, any decisions or conclusions reached by the users of available inventory reports might be based on obsolete information.

## THE STATEWIDE PROPERTY INVENTORY IS NOT AN EFFECTIVE PROPERTY MANAGEMENT TOOL

Although General Services implemented the inventory in 1988, the benefits of the inventory are not yet fully realized because the database is incomplete. Because of a lack of cooperation from other agencies and General Services' difficulty in effectively maintaining the inventory, this system does not list all the State's property or the property characteristics it was intended to compile. Consequently, the inventory is not an effective property management tool. In addition, the mechanism to fund General Services' expense of operating the inventory may discourage agencies from reporting property information to General Services.

### The Statewide Property Inventory Does Not Include All of the Property It Should

In response to state law, General Services designed the inventory to include detailed property information necessary for the comprehensive management of the real estate owned by all state agencies, except for properties held by the Legislature and Caltrans. However, the inventory does not list all the properties that the law requires. These omissions have occurred because some agencies were unable to provide records for all structures when General Services initially implemented the inventory. For example, both the Department of Water Resources (Water Resources) and the Department of Parks and Recreation (Parks and Recreation) were unable to supply an accurate accounting of their structures when General Services created the inventory. These agencies have yet to provide accurate structure records. Although Parks and Recreation developed an action plan for correcting its deficiencies, it does not expect to be able to provide accurate structure information for the inventory until December 2001. Water Resources does not plan to update the inventory because it says General Services has not asked it to do so. Further, Water Resources said that collecting the detailed information that the law requires would be time-consuming.

Our audit also showed that some agencies do not provide information to General Services' inventory unit regarding the agencies' recent property transactions. For example, the chief of the Land Management Division of the California State Lands Commission (commission) told us it is likely that the commission's inventory is overstated because the commission recently exchanged and sold numerous parcels of land that it has not reported to General Services. He cited significant staff reductions as the cause

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*Neither Water Resources nor Parks and Recreation has provided accurate structure records for the Statewide Property Inventory.*

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for its failure to report changes to the inventory and for its inability to update its own property databases for seven years. Moreover, according to General Services staff, the University of California (UC) has not reported information to the inventory since UC's property data were initially entered into the system in 1988.

### The Statewide Property Inventory Does Not Include All the Property Characteristics It Should

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*The Statewide Property Inventory information describing the State's properties and how the properties are being used is often incomplete.*

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The legislation authorizing the inventory intended for it to be a useful statewide property management tool. To that end, the legislation states that the inventory should contain such property information as an acquisition date, the manner in which the agency acquired the property, current and projected uses, and a concise description of each major structure. The law also requires that the inventory list the estimated value of property for which the owning agency has not identified a current or potential use. Further, the inventory is to contain the extent of the current or projected use of properties that warrant consideration for further development and to identify and estimate the value of properties in metropolitan areas that have either commercial applications or no current or projected uses.

Despite the legislation's directives, the information in the inventory describing the State's properties and how agencies are using the properties is often incomplete. Specifically, General Services does not maintain complete or accurate data relating to how the State is using a parcel or anticipates using a parcel, when the owning agency anticipates needing a parcel, or whether the property has surplus status. The inventory also does not indicate the estimated values for the majority of the properties listed in it, including the properties that General Services itself manages. The inventory also contains errors regarding the square footage of state-owned or leased buildings and about whether facilities are currently occupied or available. Without such information, the State cannot use the inventory as a planning and management tool as the legislation intended.

### The Statewide Property Inventory Is Incomplete and Inaccurate for Several Reasons

In addition to not reporting all property information, many agencies are not participating in an important control function designed to ensure the completeness and accuracy of the inventory. Specifically, not all agencies and departments, including

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*For fiscal year 1999-2000, 39 of 137 agencies did not return reconciled inventory reports to General Services.*

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General Services, annually verify the accuracy of the inventory by reconciling their real property records to the information contained in the inventory. For fiscal year 1999-2000, 39 of 137 agencies did not return reconciled inventory reports to General Services. Part of the problem is that departments must perform these reconciliations manually because they cannot compare their property records to the inventory electronically. This condition creates a time-consuming task for departments such as Water Resources, which received six boxes of reports for its last reconciliation. Also, because the inventory and state agencies' automated property inventory systems do not always share the same numbering scheme for property identification, reconciliation of the agencies' systems to the General Services inventory may not be feasible.

Some agencies are unable to reconcile their property records with the inventory because of weaknesses in their own internal property systems. As mentioned earlier, due to deficiencies in its own internal system, the commission does not reconcile its records to the inventory. We also found that Water Resources does not reconcile its records to the inventory even though it reports to General Services that it does. According to the responsible supervisor at Water Resources, he does not have the staff or the time to complete this task. Rather, he sends a letter annually to General Services stating that the inventory is accurate if General Services has properly entered into the inventory all the information Water Resources has submitted to General Services as property transactions occurred. Further, Water Resources' own automated records of property holdings are inaccurate and incomplete. According to a consultant hired to integrate the Water Resources automated records into a comprehensive property management database, the system deficiencies at Water Resources are a result of poor record keeping and inconsistent data entry. Therefore, even if it decided to reconcile its automated records to the inventory, the reconciliation would have limited value unless Water Resources first updated its own records.

Not only does state agencies' lack of cooperation prevent General Services from maintaining an accurate database, the manner in which General Services charges agencies for its costs of operating the inventory may discourage agencies from providing it with property information. General Services charges agencies for maintaining the inventory based on the number of records the agencies have in the inventory. As a result, agencies that report more property information to General Services are charged a

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*The fee that General Services charges for maintaining the Statewide Property Inventory may be a disincentive for agencies to report property transactions.*

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greater share of General Services' annual costs to operate the system. This fee structure may be a disincentive to report property transactions to the inventory unit because doing so increases the amounts the agencies pay. Also, most agencies we interviewed do not use the inventory to account for or manage their property. According to the manager of the inventory unit, he has heard complaints from most agencies that the fees General Services charges to support the inventory are too high. The chief of information technology for General Services' Real Estate Services Division indicated that a lack of adequate funding and staffing for the implementation and maintenance of the inventory has always prevented the system from serving its intended purpose.

### **GENERAL SERVICES' SURPLUS PROPERTY DATABASE NEEDS IMPROVEMENT TO BE AN EFFECTIVE MONITORING TOOL**

Even though the inventory is intended to be the State's comprehensive property management system, General Services also maintains a surplus property database to monitor the State's surplus property. However, like the inventory, this database is not an effective monitoring tool because it is incomplete and inaccurate. For example, the system lacked adequate detail for us to assess General Services' performance in disposing of surplus property. Insufficient mechanisms for monitoring excess state-owned property can result in oversights and unnecessary delays in disposing of this property and can make it difficult or impossible to measure and assess General Services' performance in carrying out the disposition of surplus property.

The surplus property database established by General Services does not include complete information regarding all surplus or underused properties and does not always identify which units within General Services are responsible for disposing of the properties. Rather, the unit responsible for disposing of surplus property in its current condition, the Surplus Sales Unit (Surplus Sales), maintains the status only of properties approved for disposal that this particular unit is processing. Thus, the database does not include some projects that the Asset Planning and Enhancement Branch (Asset Planning) is working on. Asset Planning is a General Services branch that enhances the value of surplus property before disposing of it by working with buyers and local governments to obtain zoning and use entitlements for the properties. For example, at the time of our review, the

surplus property database did not include two properties owned by the Department of Corrections (Corrections) and the UC that Asset Planning is studying to determine whether portions of these properties are surplus.

In addition, the database does not include the status of some properties approved for disposal. Although it itemizes the surplus properties for which Asset Planning is responsible, the status of these properties is not current because Asset Planning does not use the system. This condition has led to confusion over which group is responsible for managing a property. For two properties, we found comments in the Surplus Sales database questioning which unit was working on disposing of the property and whether the property was even surplus. The Surplus Sales database also indicated that numerous property files transferred to Asset Planning were closed when in fact Asset Planning had not completed its work on them. In addition, we found several surplus properties for which staff had not updated the database recently or at all and two for which staff could not locate the property files to update the properties' status.

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*The surplus property database established by General Services does not include complete information regarding all surplus or underused properties.*

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According to the manager of Surplus Sales, her primary job since taking over as manager in January 2000 has been to determine which surplus properties are ready to sell and which are on hold. She cited a lack of staffing as the cause of the inadequate updates to the surplus property database. However, both she and the manager of Asset Planning intend to include all properties assigned to Surplus Sales and Asset Planning in the database and to update the status of these properties monthly.

### **CALTRANS DOES NOT MAINTAIN RELIABLE DATABASES OF ITS REAL PROPERTY ASSETS**

Like General Services, Caltrans cannot rely on its databases for an accurate picture of its property holdings. In fact, three of the four inventory systems Caltrans uses to track its real property do not provide a correct record of its holdings. Inventory databases could play a vital role in Caltrans' management of its real property by reporting ownership of properties and by tracking properties' progression through various transportation projects or the properties' eventual disposal as surplus. Caltrans also needs reliable databases so that its districts can effectively perform their annual retention reviews of real property. Caltrans maintains four inventory systems for these specific purposes: the Integrated

### Caltrans Property Inventory Systems

- The IRWS tracks all property that Caltrans has acquired or may acquire in the future for transportation projects.
- The AMI system includes all operating facilities, such as district offices and maintenance stations, that Caltrans owns.
- The RWPS lists all property owned and managed by Caltrans for future transportation projects or as surplus.
- The ELMS records all of Caltrans' surplus property, whether available for sale or conditionally retained.

Right-of-Way System (IRWS), the Asset Management Inventory (AMI) system, the Right-of-Way Property Management System (RWPS), and the Excess Land Management System (ELMS).

As Chapter 1 explains, the ELMS database is incomplete, and it does not accurately reflect the status of all of Caltrans' real property holdings. In addition, when we compared information contained in the ELMS database with that in the RWPS, we found significant inconsistencies. Specifically, we identified 480 parcels from four district offices that the RWPS showed as surplus property but that the ELMS did not list. We reviewed 202 of these parcels to determine why these discrepancies existed during our review. For 144 of the inconsis-

tencies, the RWPS reflected inaccurate information. Many parcels had already been sold, others were not surplus, and a few had yet to be acquired. For another 52 parcels, the districts determined that the RWPS displayed accurate information and their absence from the ELMS was incorrect. One district was able to explain the discrepancies related to 3 additional parcels. However, the status of the remaining 3 parcels remained uncertain.

These types of inconsistencies may be partially due to the fact that the two databases used to account for property acquired for highway rights-of-way are not capable of communicating with each other. If Caltrans acquires a property for a future project and determines that a portion of the property will be surplus, Caltrans staff must enter the property's information into each of these databases separately. To remedy this situation, Caltrans is planning a new integrated information system to record and manage its right-of-way property holdings. This system is in the preliminary planning stages, however, and the department does not expect to implement it for at least two to three years.

In addition to these two right-of-way databases, Caltrans maintains a record of its operating facilities in its AMI system. However, Caltrans recognizes that the AMI is inaccurate. To address its concerns that staff was not updating the system regularly, in 1999 Caltrans conducted a pilot program to verify the accuracy of the information contained in the AMI. For the one district it reviewed, District 10, Caltrans discovered numerous errors in the AMI, including 3 facilities that the AMI listed but that no longer existed and 15 new facilities that staff needed to add to the

database. In addition, corrections were necessary for every maintenance station for such items as revisions to physical size and address changes. In fact, the report noted that this district had not updated its AMI information in more than 10 years. According to the headquarters asset manager responsible for the AMI, many districts have updated the system; however, District 4 and District 11 still require substantial updates. Unless it has an accurate inventory of its facilities, Caltrans is basing on faulty data the property management decisions that rely on this system.

### **ANNUAL REPORTS DO NOT PROVIDE ACCURATE OR COMPLETE INFORMATION IN A TIMELY MANNER**

General Services is required to prepare annual reports for the Legislature that describe surplus properties in the department's inventory. However, our review disclosed that General Services did not promptly submit its most recent report, and the report does not provide detailed information about delays in selling several properties. The report also does not identify deficiencies in the State's system for identifying and disposing of surplus property and thus misses opportunities to bring these weaknesses to the attention of policy makers. Moreover, Caltrans does not always submit required annual reports to General Services, and the value of the reports it does prepare is questionable because of the documents' inaccuracies and its failure to include all required information.

By December 31 each year, most state agencies are required to report to General Services lands they anticipate will exceed their real estate needs. General Services is required annually to prepare a report for the Legislature that includes a listing of these properties and various information about each parcel of land previously authorized to be sold. Although the law does not specify a due date, General Services did not complete its 2000 report until August 25, 2000. Consequently, the status information for unsold properties contained in the report was nearly eight months old when General Services completed the report.

Although the annual reports we reviewed appear to include all information required by statute, General Services could greatly improve the status information it provides for the surplus but unsold properties. For example, General Services listed the status of Corrections' 20-acre surplus property in Los Angeles as "City of Los Angeles has option to purchase." This entry does not

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*General Services could greatly improve the status information for surplus but unsold properties in its annual reports to the Legislature.*

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reflect the fact that the city has delayed exercising its option twice already, resulting in more than two years of delays in disposing of this property.

In another example, General Services incorrectly reported the status of the San Jose Armory owned by the Department of the Military (Military) as “awaiting toxic contamination investigation.” The Legislature approved this property for disposal 16 years ago, and it has a potential value of \$5.4 million. According to Military’s director of facilities, a toxic investigation was completed in October 1999, and the property is available for disposal. However, before it can move from the property, Military needs to locate a buyer for the property that is willing to construct a new armory facility so Military can continue its operations uninterrupted.

Reporting the status of unsold properties to the Legislature provides an opportunity for General Services to highlight the reasons for some of the issues causing its lengthy delays in disposing of the State’s excess property. If they had more detailed information regarding these delays, the policy makers might be able to identify opportunities for legislative intervention that could hasten the disposal process. Moreover, although General Services is aware of several weaknesses in the current system for identifying and disposing of surplus property, the department does not include in its annual reports any discussion of those weaknesses or suggested improvements in the State’s process. Through this reporting process, General Services could have previously identified some of the weaknesses we describe in this report, such as the absence of state oversight for the surplus reporting process or the lack of incentives for state agencies to identify and dispose of surplus or underused property.

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*Caltrans did not prepare required reports in 1999; for 2000, it prepared these reports using two databases that contain numerous inaccuracies.*

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Finally, the annual reports Caltrans submits to General Services do not provide an accurate, complete reporting of Caltrans’ real property holdings. State law requires Caltrans to submit annual reports of its surplus property and property held for future projects not yet advertised for construction. However, Caltrans did not prepare these reports in 1999. For 2000, Caltrans prepared these reports from the ELMS and RWPS databases, both of which contain numerous inaccuracies. The information provided to General Services also does not contain the total purchase price for all property related to future unadvertised projects, which is a report element that the law requires. However, Caltrans believes there is no existing demand for these reports and plans to seek legislation to discontinue their preparation. This assertion may

in fact be true because when we requested copies of the most recent reports, General Services informed us that it had recently destroyed all reports on file due to a lack of requests for copies of them.

## RECOMMENDATIONS

General Services should take the necessary actions to ensure that the inventory contains the information it requires to serve as the statewide property management tool intended by legislation. To accomplish this task, General Services should consider the following steps:

- Work with state agencies to identify the property characteristics the inventory must contain to serve as an effective property management tool and seek changes to the law if necessary.
- Develop changes to methods for operating the inventory system to promote efficiency. For example, new methods could give agencies the ability to enter required property information into the system and to verify the accuracy of the inventory through real-time access to the inventory's data.
- Cooperate with land-owning state agencies to provide standard property identification elements that will facilitate the reconciliation of the inventory systems maintained by the agencies.
- Seek to change the funding mechanism for the inventory to eliminate the current disincentive for state agencies to provide information to the system.

General Services should also implement its plan to include in its surplus property database all unused or underused property assigned to its Surplus Sales and Asset Planning and to update the surplus property database monthly to assist in monitoring its progress in selling surplus property or enhancing its use.

To improve the value of reports to the Legislature regarding its surplus property inventory, General Services should ensure that it submits these reports promptly and should consider including additional detailed information on the status of surplus property. In these reports, General Services should also describe the weaknesses in the State's real property systems and include suggestions to improve the State's ability to identify and dispose of surplus property.

To make certain it has reliable information available to manage its real property holdings, Caltrans should take the necessary steps to correct the information in its real property databases. In addition, until existing reporting requirements are rescinded, Caltrans should take the necessary steps to ensure that it provides accurate, timely annual reports on the status of its real property holdings. ■

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# CHAPTER 4

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## ***The Department of General Services Can Better Manage the State's Office Space, Including Space Leased Out for Child-Care Facilities***

### CHAPTER SUMMARY

**T**he Department of General Services (General Services) can better manage the office space occupied by agencies of the State, including space in certain state-owned buildings leased out for child-care facilities. General Services has not fulfilled all of its obligations to administer a state program to provide space for child-care facilities in state-owned buildings. The program was intended to ensure the availability of child care to state employees but was not intended to provide them with reduced-cost or subsidized child care. However, General Services does not always enforce the requirements of the program, such as executing lease agreements and collecting rent for building space occupied by child-care providers. In addition to losing revenue by not collecting rent, General Services may be exposing the State to unnecessary liability because it has not always executed required building space leases. General Services does not comply with the program's requirements partly because it has not established the necessary procedures to ensure compliance and partly because its management believes that evicting child-care providers who do not pay their rent would not be prudent. A study group within General Services has recommended that the department waive rent payments to solve one of its problems in administering and enforcing leases; however, General Services cannot legally waive rents except when such an action is needed to ensure the viability of a child-care facility.

In addition, General Services does not conduct regional studies of office space occupied by state agencies and prepare plans to accommodate the State's office space needs as often as the department's procedures require. For these reasons, General Services cannot be sure that it is adequately managing the State's office space.

## GENERAL SERVICES DOES NOT ALWAYS EXECUTE REQUIRED LEASES FOR CHILD-CARE FACILITIES IN STATE-OWNED BUILDINGS

State law places a considerable amount of responsibility on General Services for overseeing leases of child-care facilities for employees working in certain state-owned buildings. One of its

responsibilities is to ensure that it executes and monitors the terms of lease agreements to provide facilities for child-care services for state employees. The terms of space leases for child-care facilities should address the payment of rent, proof of financial responsibility, and maintenance of the space. However, we found that General Services has been remiss in initiating and renewing these agreements.

To use state-owned space as a child-care facility, interested employees must form a nonprofit corporation (nonprofit) for the purpose of organizing a child-care center.<sup>3</sup> The nonprofit is required to enter into an agreement with General Services for the provision of the space. In spite of this requirement, we found two instances in which General Services had not executed an agreement for the space even though its staff was aware of the child-care facilities. These facilities have been operating in the State Lottery Building and the Secretary of State building for 10 years and 5 years, respectively. In the case of the Secretary of State building, General Services' leasing manager knew for at least 2 years about the existence of the child-care facility and the absence of a valid lease agreement for the space; however, she did not pursue the issue diligently.

### General Services' Responsibilities for Providing Child-Care Facilities for Employees in State-Owned Buildings

- Conducting a survey of employees in state-owned buildings with more than 700 employees to determine the need for child-care facilities.\*
- Securing adequate space for the facilities.
- Setting the terms for each lessee, including rent payments, maintenance of space, and proof of financial responsibility, and then executing a contract.
- Making the space available as long as the lessee pays the monthly rent and meets the terms of the contract.
- Reassessing the need for the facility after five years.

\* This rule has exceptions. For example, the law excludes buildings constructed before its enactment in 1980 if the buildings have not undergone significant changes since 1980.

In the case of the State Lottery Building, poor communication among General Services' staff is to blame for the lack of a lease. Although staff in its Asset Planning and Enhancement Branch (Asset Planning) was aware of the facility, the leasing unit manager did not know the facility existed until we brought it to her attention.

<sup>3</sup> General Services may also lease off-site space to accommodate the child-care needs of employees in state-owned buildings with more than 700 employees if it is reasonable to do so.

The deputy director of the Real Estate Services Division (deputy director) acknowledges that General Services could have done a better job in executing the required child-care leases. General Services is currently working to put in place properly executed lease agreements for these two facilities.

**TABLE 7**

**General Services Does Not Promptly Renew Leases or Collect Payments for Child-Care Facilities**

Owning Agency	Building Name	County	Delinquent Rents and Building Services Payments	Approved Lease Expiration Date
Developmental Services	Lanterman Developmental Center	Los Angeles	\$0	10/14/93*
General Services	Ronald Reagan State Office Building	Los Angeles	25,989	08/31/94*
Mental Health	Napa State Hospital	Napa	0	08/31/00
Developmental Services	Fairview Developmental Center	Orange	11,883	08/14/01
Motor Vehicles	Motor Vehicles Headquarters Building	Sacramento	†	06/30/90*
Franchise Tax Board	Franchise Tax Headquarters (facility 1)	Sacramento	†	06/30/98*
Equalization	450 N Street	Sacramento	†	07/31/03
Franchise Tax Board	Franchise Tax Headquarters (facility 2)	Sacramento	†	06/30/98*
Justice	Justice Building	Sacramento	2,000	07/31/00*
Secretary of State	Archives Building	Sacramento	N/A‡	N/A
General Services	Bonderson Building	Sacramento	9,500	12/31/04
Mental Health	Patton State Hospital	San Bernardino	0	01/31/00*
General Services	Edmund G. Brown Building	San Francisco	†	01/31/00*
General Services	San Francisco State Building	San Francisco	†	11/30/04
Mental Health	Atascadero State Hospital	San Luis Obispo	0	12/31/99*
Developmental Services	Agnews-West	Santa Clara	0	05/31/03
Corrections	California Medical Facility, Vacaville	Solano	500	06/30/04
Lottery Commission	Lottery Commission Building	Sacramento	N/A†	N/A
<b>Total as of August 2000</b>			<b>\$49,872</b>	

Source: General Services' records as of August 2000.

N/A: No lease approved by General Services is in place.

\* Expired lease agreements.

† An entity other than General Services is responsible for collecting the lease payments.

‡ The Secretary of State does not charge rent.

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*As of August 2000, 9 of the 16 child-care facilities in state-owned buildings are operating under expired lease agreements.*

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Even when General Services executes lease agreements, it often neglects to renew them. As Table 7 shows, as of August 2000, 9 of the 16 child-care facilities in state-owned buildings are operating under expired lease agreements.<sup>4</sup> The General Services leasing manager is aware of these lease expirations and stated that she had failed to renew them because she had not received work requests from building managers to initiate the renewals. According to General Services' deputy director, the absence of work requests is not a valid reason for failure to renew leases. The leasing manager is pursuing new leases for two of these facilities; however, she is waiting for the deputy director to make a policy decision, as we discuss later, before pursuing renewal of the other seven leases.

### **GENERAL SERVICES DOES NOT ENFORCE THE RENT REQUIREMENT OR PERFORM REQUIRED REVIEWS FOR CHILD-CARE FACILITY LEASES**

General Services has not fully complied with requirements that it collect rent from child-care facilities in state-owned buildings and that it conduct reviews to determine the initial and continuing need for child-care facilities. As Table 7 details, as of August 2000, General Services had not collected almost \$50,000 in facility lease payments from five child-care providers. These providers had previously entered leases and agreed to pay rent. The law states that state-owned building space will be held to provide child care for employee groups or building occupant groups as long as they comply with the terms and conditions of their lease agreements, including the payment of monthly rent. According to the deputy director, he made the decision not to evict the child-care providers because he believes his greater responsibility is to provide child-care facilities for state employees. However, the program is intended to ensure that space is available for child care, not to subsidize it. These delinquent lease payments are depriving the State of revenues designed to offset the State's cost of making state-owned space available for child-care facilities.

On the other hand, the Secretary of State provides building space and improvements to the child-care facilities without charging the employees' nonprofit corporation any rent for the space. Because of this arrangement, the State is subsidizing the child-care costs of employees who use the facility at the

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<sup>4</sup> This figure excludes the Lottery Commission and Secretary of State buildings for which General Services has yet to initiate lease agreements.

Secretary of State building. Because General Services has not negotiated an agreement for this space, it cannot calculate the exact amount of lost revenue; however, rent the State charges for child-care space in similar facilities ranges between \$7,000 and \$12,000 per year.

For seven other child-care facilities, including one in the State Lottery Building, the nonprofit pays rent directly to the agency that occupies the building. However, General Services has not established a control system to monitor these child-care agreements to ensure that all child-care providers pay rent. As a result, General Services does not know whether these nonprofits are paying rent.

In addition to not ensuring that all nonprofits pay rent for the child-care facilities they lease, in at least one instance General Services did not conduct a review to determine the need for a child-care facility. Under the program, General Services' Asset Planning is to survey the employees of those buildings constructed or substantially renovated after 1980 that have a capacity of 700 or more employees to determine whether the employees have a need for child care. However, Asset Planning did not review the Secretary of State building, which is a state-owned building that is subject to the program. Although the Secretary of State has a child-care facility on its premises, because General Services did not survey the employees that work in the building, it has never established that space for child care in the building is necessary.

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*As of August 2000, General Services had not collected almost \$50,000 in facility lease payments from five child-care providers.*

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Not only did General Services neglect to perform a review to determine whether a child-care facility was needed, it also does not conduct subsequent reviews to make certain that the need continues to exist. After a child-care facility has operated for five years, state law requires General Services to assess the child-care needs of the state employees using the facility and to evaluate the office space needs of those in the building in which the facility is located. If the assessment demonstrates a greater need for office space than for child-care space, General Services may choose to close the facility. Although this requirement seems clear, General Services does not conduct such reviews. Again, the deputy director responded that evicting child-care facilities from state-owned buildings would not be prudent.

## RECOMMENDATIONS BY A GENERAL SERVICES STUDY GROUP WILL NOT SATISFY PROGRAM REQUIREMENTS

In October 1999, General Services convened a study group of employees in its Real Estate Services Division to examine issues surrounding child-care facilities. This group identified numerous issues, including the delinquent rent payments and expired lease agreements we noted earlier, and it proposed solutions to General Services management. However, even if General Services adopts the recommendations resulting from the group review, the recommendations will not bring General Services into full compliance with the law.

The group recommended standardizing lease agreements and requiring the payment of overdue rents. However, to resolve the problems with collecting future rent for child-care facilities, the employee group recommended waiving rent for space and utilities. Such waivers would be contrary to state law, which specifically requires payments for rent. The law does allow General Services the discretion to charge lower rents if needed to ensure the viability of a child-care facility. However, the group did not establish that the requirement to pay rent threatened the viability of the facilities. Rather, it suggested eliminating rents as a solution to problems in administering and enforcing leases. Eliminating rents to avoid collection problems not only violates the law but also fails to serve the best interests of the State. The group originally presented its recommendations to the deputy director in February 2000; however, the deputy director has not yet decided on an approach to resolve these issues.

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*Contrary to law, a General Services study group suggests eliminating rents as a solution to one problem in administering and enforcing child-care leases.*

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## GENERAL SERVICES HAS BEEN SLOW TO DEVELOP REGIONAL PLANS FOR OFFICE SPACE

General Services neither conducts regional studies of office space occupied by state agencies nor prepares plans to accommodate the State's office space needs as often as the department's policy specifies. Although it intends to perform ongoing studies of the State's need for office space in urban centers and to prepare regional plans to accommodate the State's needs, competing priorities have hampered these efforts, and General Services is current with less than one-third of the required plans. Therefore, General Services cannot ensure that it is meeting the requirements of an executive order requiring it to consolidate state office space where feasible.

General Services’ guidelines require Asset Planning to develop regional plans and implement strategies to meet the State’s identified office space needs. Regional plans are important because they help General Services both identify the State’s need for office space and manage the more than 23 million square feet of office space it controls. For planning purposes, General Services has divided the State into the 12 regions listed in Table 8.

**TABLE 8**

**Dates of Most Recent Comprehensive Plans and Status of Annual Updates for General Services’ 12 Regions**

	Date of Most Recent Comprehensive Plan	Annual Update Completed in Past Year*
<b>Major metropolitan regions</b>		
Sacramento/East Yolo counties	1997	No
San Diego/Imperial counties	1994	Yes
Los Angeles County	1993	No
San Francisco Bay Area	1992	Yes
<b>Other regions</b>		
Orange County	1998	
Long Beach	1997	
San Bernardino/Riverside counties	1993	
San Joaquin Valley	1988	
Upper Sacramento Valley	1982	
South Central Coast	1982	
Santa Clara/Contra Costa/ East Alameda counties	1980	
North Coast	Never	

\* Only major metropolitan regions require annual updates.

For years it was General Services’ policy to prepare a comprehensive plan when it deemed one necessary; however, in 1997 General Services instituted a policy to prepare plans for each of the 12 regions on a five-year rotating schedule. Another long-standing guideline requires General Services to update annually the comprehensive plans for the State’s four major metropolitan regions. A comprehensive plan identifies current and future

demand for office space, including space that could be functionally consolidated in a facility with multiple tenants, and evaluates the feasibility of consolidation alternatives. An update to the plan reports on planning decisions and activities that have occurred since the last comprehensive plan.

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*Regional plans are important because they help General Services identify the State's need for office space and manage the more than 23 million square feet of office space it controls.*

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However, because General Services has redirected its staff from efforts to complete these plans to other priorities, staff have not completed these plans on a regular basis. As Table 8 shows, during the past five years, General Services has completed comprehensive plans for only 3 of the State's 12 regions. The department has not prepared plans for some regions since the 1980s and has never prepared a plan for 1 region. In addition, it has completed only two of four required updates during the past year.

The assistant chief of Asset Planning told us that his unit has had to balance preparation of the regional plans with competing priorities, such as planning for capitol-area office space needs, preparing facility plans for individual state agencies, and finding a suitable location for the governor's residence. Therefore, they have focused their regional planning efforts on areas with the most office space. He also told us in November 2000 that the overdue plans for four regions would be complete in four months.

## RECOMMENDATIONS

To ensure that it complies with state laws governing child-care facilities in state-owned buildings, General Services should take the following necessary steps to make certain it fulfills its oversight responsibilities:

- Improve its administrative controls over leases for child-care facilities to ensure that required leases are in place and that nonprofit corporations established by employees to provide child-care facilities meet all the terms and conditions of the leases, such as the nonprofits' making agreed-upon payments for the leased spaces.
- Develop and implement a system to communicate among General Services' relevant units, such as those involved in building design, child-care facility review, leasing, and accounting, to ensure that all affected units are aware of child-care facilities under General Services' jurisdiction.

- Conduct the required initial reviews to determine whether state employees need child-care facilities and, after the facilities have operated for five years, compare state employees' continuing need for the facility to the State's need for additional office space.

In addition, General Services should make sure that it meets the requirements of the law when determining rents for employees' nonprofit corporations that seek to establish child-care facilities in state-owned buildings and when enforcing the terms of lease agreements or seek to change the law's requirements.

Finally, General Services should perform planned regional office space studies to ensure that it provides an adequate strategy for consolidating the State's office space.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE  
State Auditor

Date: January 30, 2001

Staff: Sylvia L. Hensley, CPA, Deputy State Auditor  
Norm Calloway, CPA  
Tyler Covey, CPA, CMA  
Theresa Gartner, CPA  
Chris Shoop  
Leonard Van Ryn

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# APPENDIX

## *The Department of General Services' Surplus Property Located in High-Cost Counties and Authorized for Disposal*

County	Department	Project Name	Acres	Year Declared Surplus	Status
Alameda	Health Services	Acton Street Laboratory, Berkeley	0.54	1996	Disposal is pending. This property is being conveyed to the City of Berkeley.
Alameda	Health Services	Berkeley Way Laboratory	2.40	1996	Legislation designates transfer to UC Berkeley after Health Services vacates.
Contra Costa	Employment Development	Richmond Field Office	1.58	1998	Local government is attempting to acquire this property. City of Richmond will acquire this property pending approval from the United States Department of Labor.
Contra Costa	Military	Concord Armory	3.04	1985	Receiving entity is designated by legislation, and transaction has yet to take place. Military is negotiating with the City of Concord for exchange.
Los Angeles	Boating and Waterways	Long Beach Marina	1.32	1996	Legislation designates the City of Long Beach as the receiving entity. The city is leasing the property until 2014.
Los Angeles	Corrections	Los Angeles Reception Center	15.50	1992	Local government is attempting to acquire this property. The City of Los Angeles has an option to purchase this parcel.
Los Angeles	Corrections	Portion of Los Angeles Reception Center	4.50	1992	Local government is attempting to acquire this property. Alameda Corridor Transportation Authority plans to purchase this property if Corrections approves the sale.
Los Angeles	Developmental Services	Portion of Lanterman Developmental Center	41.00	1996	Study is pending. Developmental Services has put this property on hold until its program study is complete in March 2001.
Los Angeles	General Services	Los Angeles Office Building site	2.18	1982	This property is available for disposal. General Services has a 14 year-old agreement with the City and County of Los Angeles to develop this property. Currently, the site generates revenue from parking fees.

County	Department	Project Name	Acres	Year Declared Surplus	Status
Los Angeles	General Services	Junipero Serra State Office Building	3.66	1996	Agencies require replacement facilities before disposal of this property. This building is occupied by state agencies while General Services locates other facilities.
Los Angeles	Mental Health	Portion of Metropolitan State Hospital	14.80	1996	Mental Health no longer considers this parcel as excess to its needs.
Napa	Mental Health	Portion of Napa State Hospital	23.00	1996	Mental Health no longer considers this parcel as excess to its needs.
Orange	Developmental Services	Portion of Fairview Developmental Center	32.00	1996	Study is pending. Developmental Services has put this property on hold until its program study is complete in March 2001.
San Diego	Forestry and Fire Protection	Lyons Valley Forest Fire Station	0.66	1999	This property is available for disposal. General Services is offering this property to state and local agencies.
San Diego	General Services	San Diego Office Building	2.68	1995	Agencies require replacement facilities before disposal of this property. This property is occupied by state agencies while future facilities are developed.
San Diego	Military	Escondido Armory	5.1	1996	Military is using this armory and no longer considers the parcel excess.
San Diego	Military	Portion of San Diego Armory	3.0	1996	Military is leasing out this parcel but no longer considers it excess.
Santa Clara	Developmental Services	Portion of Agnews Developmental Center—West	152.00	1996	Disposal is pending.
Santa Clara	Developmental Services	Portion of Agnews Developmental Center—West	16.00	1996	Environmental cleanup is needed before this property is available for sale.
Santa Clara	Military	San Jose Armory	5.54	1984	Military is using this armory and requires a replacement before vacating the site.
Santa Cruz	Military	Santa Cruz Armory	40.00	1996	Military is using this armory and no longer considers the parcel excess.
Solano	Fish and Game	Rio Vista Fishing Access	1.00	1989	Study is pending. Property is unavailable for disposal until title problem is resolved.
Solano	Health Services	Lambie Road Animal Laboratory	49.14	2001	This property is available for sale.
Sonoma	Developmental Services	Portion of Sonoma Developmental Center	35.47	1983	Disposal is pending. Conveyance to the County of Sonoma is pending.

County	Department	Project Name	Acres	Year Declared Surplus	Status
Sonoma	Developmental Services	Portion of Sonoma Developmental Center	250.00	1996	Study is pending. Environmental study is pending and use is restricted to agricultural leases or open space.
Sonoma	General Services	Alder County Park	2.64	2001	Legislation designates transfer to the County of Sonoma.
Ventura	Youth Authority	Portion of Ventura School	45.00	1976	Disposal is pending. General Services is transferring this parcel to the California Conservation Corps.

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*Agency comments provided as text only.*

Business, Transportation and Housing Agency  
980 Ninth Street, Suite 2450  
Sacramento, CA 95814

January 10, 2001

Elaine M. Howle  
State Auditor  
Bureau of State Audits  
555 Capitol Mall  
Sacramento, CA 95814

Dear Ms. Howle:

Attached is the Department of Transportation's (Caltrans) response to your draft report, *The State's Real Property Assets: The State Has Identified Surplus Real Property but Lacks Effective Processes to Manage Its Property (#2000-117)*. As its response indicates, Caltrans agrees to implement the report's recommendations by continuing its efforts to correct and reconcile information in its various real property databases, expediting the disposal of its surplus property, and strengthening procedures and management support in performing annual property retention reviews.

In response to California's housing crisis, the Business, Transportation and Housing Agency (Agency) initiated efforts last year to identify surplus as well as under-utilized properties that could be considered for uses that would contribute to easing the housing shortage. I am committed to ensuring that Caltrans improves its management of surplus real properties, and we will move aggressively to identify properties that can be considered for possible public use. To monitor Caltrans' progress in implementing your report's recommendations, the Agency will develop performance benchmarks in conjunction with your milestones for status updates 60 days, six months and one year after the issuance of your final report.

Elaine M. Howle  
January 10, 2001  
Page 2

We are thankful for your review, and for the opportunity to respond to the draft report. If you need additional information, please do not hesitate to contact me, or Michael Tritz, Chief of the Agency's Office of Internal Audits, at (916) 324-7517.

Sincerely,

*(Signed by: Maria Contreras-Sweet)*

MARIA CONTRERAS-SWEET  
Secretary

Attachment

Department of Transportation  
Office of the Director  
1120 N Street  
P.O. Box 942873-0001  
Sacramento, CA 942873

January 10, 2001

MARIA CONTRERAS-SWEET, Secretary  
Business, Transportation and Housing Agency  
980 – 9th Street, Suite 2450  
Sacramento, CA 95814

Dear Secretary Contreras-Sweet:

I am pleased to provide our response to the Bureau of State Audits' (BSA) draft audit report entitled *"The State's Real Property Assets: The State Has Identified Surplus Real Property But Lacks Effective Processes to Manage Its Property."*

The BSA report identified that the Department is inefficient in disposing of surplus property and its databases are unreliable, which is hindering the Department's ability to effectively manage its real property holdings. In addition, the Department does not always perform adequate property retention reviews for identifying surplus property available for disposal.

The BSA recommends that the Department update its real property databases, expedite the disposal of surplus property, and strengthen procedures and management support in performing annual property retention reviews.

The Department agrees with the findings and is committed to correcting the deficiencies by implementing the recommendations. In addition, the Department is already working with the Business, Transportation and Housing Agency to identify opportunities for meeting pressing housing needs by making appropriate properties available more quickly. If you have any questions, or require further information, please do not hesitate to contact Gerald Long, External Audit Liaison, at (916) 323-7122.

Sincerely,

*(Signed by: Jeff Morales)*

JEFF MORALES  
Director

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*Agency comments provided as text only.*

State and Consumer Services Agency  
Office of the Secretary  
915 Capitol Mall, Suite 200  
Sacramento, CA 95814

January 9, 2001

Elaine Howle, State Auditor\*  
Bureau of State Audits  
555 Capitol Mall, Suite 300  
Sacramento, CA 95814

Dear Ms. Howle:

SUBJECT: AUDIT REPORT NO. 2000-117

Enclosed is our response prepared by the Department of General Services to the Bureau of State Audits' Report No. 2000-117 entitled *The State's Real Property Assets: The State Has Identified Surplus Real Property but Lacks Effective Processes to Manage Its Property*. A copy of the response on diskette is also included.

If you have any questions or need additional information, please contact me at 653-4090.

Sincerely,

*(Signed by: Clothilde V. Hewlett)*

Clothilde V. Hewlett  
Undersecretary

Enclosures

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\*California State Auditor's comments appear on page 87.

**Date:** January 8, 2001

File No.: 2000-117

**To:** Aileen Adams, Secretary  
State and Consumer Services Agency  
915 Capitol Mall, Room 200  
Sacramento, CA 95814

**From:** Department of General Services  
Executive Office

**Subject:** RESPONSE TO BUREAU OF STATE AUDITS' REPORT NO. 2000-117- "THE STATE'S REAL PROPERTY ASSETS: THE STATE HAS IDENTIFIED SURPLUS REAL PROPERTY BUT LACKS THE EFFECTIVE PROCESSES TO MANAGE ITS PROPERTY"

Thank you for the opportunity to respond to Bureau of State Audits' (BSA) Report No. 2000-117 which addresses recommendations to the Department of General Services (DGS). The following response addresses each of the recommendations contained in Chapters' No. 1, 3, and 4 of the report that pertain to operations within the DGS' Real Estate Services Division (RESD).

### OVERVIEW OF THE REPORT

The DGS has reviewed the findings, conclusions and recommendations presented in Report No. 2000-117. As discussed in this response, the DGS will take appropriate actions to address the recommendations.

Overall, the DGS is pleased that the BSA's extensive and in-depth audit of the DGS' surplus property program did not identify any properties that were not ultimately disposed of in the state's best interests. Further, except for the issues noted related to child-care facilities, the BSA's recommendations to the DGS primarily address issues of an administrative nature which, in most cases, can be readily addressed. The existence of further areas for improvement in administrative activities, such as the completeness and accuracy of property inventory reports and databases, is not surprising when consideration is given to the size and complexity of the state's property management functions.

In recent years, the operational effectiveness of the DGS' activities related to the management and disposal of the state's surplus real property has been widely recognized and commended. Of particular note was the National Association of Directors of Administration and General Services presentation in 1998 of its Award of Distinction to the RESD's Asset Planning and Enhancement Branch for its innovative sale of some key components of the state's surplus real property. The first example was the sale to CISCO Systems of a 155 acre surplus portion of the east campus of the Agnews Developmental Center in San Jose. The RESD staff worked in conjunction with CISCO and the City of San Jose to secure the entitlements for a 3.3 million square foot Research and Development facility to house over 12,000 new employees. CISCO paid roughly \$91 million for the property of which the state netted approximately \$60 million.

The difference was primarily to pay for an additional \$30 million in new transportation infrastructure benefiting the entire tax generating region.

Another example using the same process was the sale of an 82.5 acre portion of the west campus of the Agnews Developmental Center that was declared surplus in 1996. This property, located in the City of Santa Clara, was sold to Sun Microsystems for a gross sales price of \$51 million. Sun is completing a 1 million square foot campus and will employ approximately 3,600 employees at the site. The remaining portion of the east campus, 152 acres, is being sold to a consortium of homebuilders for \$180 million. Entitlement of the property has been approved and it is planned to provide approximately 2,950 units of badly needed housing for the area, including 350 units of housing for low and very low-income households. Further, the mixed-use development will provide a shopping center that includes a much-needed grocery store, a school, park, library and police substation.

Chapter 4 of the BSA's report presents concerns with the DGS' administration of the state's program to provide space for child-care facilities in state-owned buildings. The DGS takes its responsibilities for child-care facilities very seriously and, in October 1999, initiated an internal review to identify actions that could be taken to ensure the maintenance of fully operational and viable facilities. The review team issued two written reports for executive management's consideration. The first report, issued on February 15, 2000, addressed the development of standard lease rates and standardized leases. The second report, issued on March 29, 2000, addressed the determination of child-care needs within state buildings. Both of these reports contained extensive information and numerous recommendations for program improvement that needed full discussion and consideration prior to implementation. ①

On December 27, 2000, the RESD's Deputy Director met with members of the review team to discuss his final decisions on the team's recommendations. It is anticipated that a written report addressing how the DGS is going to respond to key child-care facility program issues will be available by February 15, 2001. The report will address the areas of concern raised in the BSA's report including the execution and enforcement of lease agreements and the collection of rent payments from child-care providers. A particular concern of the BSA was the possibility of the DGS not requiring rent to be paid by the providers. Although that option was one of many considered and presented by the review team, it was not accepted by executive management. In brief, the policy that is in the process of finalization requires the payment of a fair and reasonable rent amount that is at least equivalent to the state's costs in administering the lease.

The following response only addresses the recommendations. In general, the actions recommended by the BSA have merit and will be promptly addressed.

## RECOMMENDATIONS

### CHAPTER 1

**RECOMMENDATION # 1:** *General Services should fill the vacant positions in the unit responsible for disposing of surplus properties and promptly assign surplus properties to staff for disposal.*

## DGS RESPONSE # 1:

At the time of the BSA's review of this issue, the RESD was actively interviewing candidates to fill the one vacant real estate officer position in the Surplus Unit that is discussed in the BSA's report. In July 2000, this position was filled and the unit fully staffed. As in the past, when turnover occurs prompt actions will be taken to fill the vacancy. Further, as deemed necessary, staff will be redirected within the RESD to ensure adequate coverage of unit duties and responsibilities.

In addition, all surplus properties approved for disposal by the Legislature in 1999 and 2000 have been assigned to staff. It is foreseen that current policies and procedures will ensure the continued prompt assignment of future surplus properties approved for disposition. Specifically, current policies provide for the assignment of surplus projects at the time the surplus bill is signed into law, usually the middle of September, as opposed to waiting until the law goes into effect on January 1<sup>st</sup>.

## CHAPTER 3

**RECOMMENDATION # 1:** *General Services should take the necessary steps to ensure that the Statewide Property Inventory (inventory) contains the information it requires to serve as the statewide property management tool, as intended by legislation. To accomplish this, General Services should consider the following steps:*

- *Work with affected state agencies to identify the property characteristics the inventory must contain to serve as an effective property management tool; and seek changes to the law if necessary.*
- *Consider changes to the operation of the inventory system to promote efficiency, such as giving affected agencies the ability to enter required property information into the system and to verify the accuracy of the inventory through real-time access to the information in the inventory.*
- *Work with affected state agencies to provide standard property identification elements that will facilitate the reconciliation of the systems maintained by the agencies with the inventory.*
- *Seek to change the funding mechanism for the inventory to eliminate the current disincentive to state agencies to provide information to the system.*

## DGS RESPONSE # 1:

The DGS will continue to take steps to ensure that the Statewide Property Inventory (SPI) contains necessary information to serve as a management tool. However, while there may be areas for further improvement, it should be noted that since its development in the late 1980s the DGS has found the SPI to be a valuable tool that is used on a daily basis by its staff to assist in effectively managing the state's real property. (3)

For the first recommended action related to adding additional property characteristics to the SPI, during the next SPI reporting cycle the RESD will provide state agency clients an opportunity to identify any additional information that they would like to see included on the SPI. The SPI's current property characteristic table can be expanded to accommodate additional characteristics. It should also be noted that the SPI database and reporting process already allows for the inclusion of extensive information on the state's properties. However, the system depends on the cooperation of the owning state agencies in providing this information.

The second recommended action involves allowing state agencies to have electronic real-time access and data entry capability to the SPI. These system capabilities have also been a goal of the RESD. In fact, both of these issues are addressed in RESD's 2000/2001 fiscal year strategic plan for information technology. To date, the RESD has made significant progress in developing a real-time access application for SPI users. In fact, it is foreseen that by June 30, 2001, this function will be available on the internet. The process will include the ability of users to download relevant data for inventory reconciliation purposes.

In addition, it has been determined that the revision of the SPI system to allow state agencies to have data entry capabilities will be a project of significant cost and complexity. At this time, the RESD plans to pursue the feasibility of this project early in the 2002 calendar year.

As for the third recommended action, the SPI already provides cross-reference fields that can be used to facilitate the reconciliation of agency inventory systems. Specifically, the SPI allows agencies to use their own property identification numbering scheme for reconciliation purposes. This system capability will be communicated to state agencies during the next SPI reporting cycle.

For the fourth recommended action related to changing the SPI's funding mechanism, the DGS will determine if there are practical and fair alternatives to the current funding method which is based on a charge per record entered on the inventory. When originally established, this funding mechanism was considered a fair approach because the allocation of costs was based on the number of owned properties.

**RECOMMENDATION # 2:** *General Services should also implement its plan to include in its surplus property database all unused or underused property assigned to its Surplus Sales Unit and Asset Planning and Enhancement Branch and to update the surplus property database monthly to assist in monitoring its progress in selling surplus property or enhancing its use.*

## DGS RESPONSE #2

As noted in the report, the management of the Surplus Unit and Asset Planning and Enhancement Branch are taking action to improve the accuracy and completeness of the surplus property database. However, it should be noted that this database was created as an internal tool to meet the needs of operating management and is just one tool of many that is used to ensure the effective monitoring of surplus sales operations.

**RECOMMENDATION # 3:** *To improve the value of reports to the Legislature regarding its surplus property inventory, General Services should ensure that it submits these reports promptly and should consider including more detailed information on the status of surplus property. In addition, General Services should describe the weaknesses in the state's real property systems including suggestions to improve the State's ability to identify and dispose of surplus property.*

## DGS RESPONSE # 3

The DGS is taking action to ensure that its annual report on surplus property is submitted to the Legislature in a more timely manner. In fact, the current goal is to have this year's report submitted by the end of February 2001.

In addition, the RESD will include more detailed information within the report on the status of surplus property that will assist in moving the properties towards disposition. The information will be provided in a descriptive manner that recognizes the current operating environment related to each individual property identified as surplus.

It is the practice of the DGS to constantly evaluate its reporting systems to ensure that they meet the needs of its customers. Therefore, as recommended by the BSA, consideration will be given to providing additional information on the surplus property report related to program weaknesses and suggestions for improvement.

## CHAPTER 4

**RECOMMENDATION # 1:** *To ensure that it complies with state laws governing child-care facilities in state-owned buildings, General Services should take the necessary steps to ensure that it fulfills its oversight responsibilities. These steps should include the following:*

- *Improve its administrative controls over space leases for child-care facilities to ensure that required leases are in place and that nonprofit corporations established by employees to provide child-care facilities meet all of the terms and conditions of the*

*leases, such as making agreed-upon payments for the leased space.*

- *Develop and implement a system to communicate among General Services relevant units, such as building design, child-care facility review personnel, leasing, and accounting, to ensure that all affected units are informed of child-care facilities.*
- *Conduct the required reviews, initially, to determine whether child-care facilities are needed and, after they have been in operation for five years, to assess the continuing need for the facility compared to the State's need for additional office space.*

### **DGS RESPONSE # 1**

The first recommended action related to ensuring that leases are in place and enforced represents existing RESD policies. These policies will be reemphasized to staff and monitoring systems established to assist in ensuring compliance. The new child-care facility leasing policies discussed in the Overview section of this report will assist staff in developing, renewing and enforcing lease terms, such as those involving the making of required lease payments. It should also be noted that the eleven facilities identified in the report as lacking a current lease agreement have been or will be in the near future assigned to staff for the development or renewal of an agreement.

In general, the RESD believes it has established effective systems of communication. However, to address the second recommended action, it will reanalyze its processes to ensure that relevant child-care facility issues are being communicated to appropriate division staff.

For the final recommended actions related to assessing the initial and continuing need for child-care facilities, the RESD's existing policies and practices provide for the conduct of initial child-care need studies as required by statute. The one instance noted in the report where an initial study was not conducted, i.e., the Secretary of State's building, was a unique circumstance. As to the performance of a follow-up needs assessment, the RESD will develop a methodology and criteria for performing a needs assessment of child-care centers that have been in operation for five years.

**RECOMMENDATION # 2:**      *General Services should ensure that it meets the requirements of the law when determining rents for employees' nonprofit corporations that seek to establish child-care facilities in state-owned buildings and enforcing the terms of lease agreements or seek to change the law's requirements.*

### **DGS RESPONSE #2**

As noted in the Overview section of this response, the DGS will ensure that rent is charged for child-care facilities as provided in statute. Specifically, the DGS will ensure that a rent amount is charged that is fair and reasonable and, at a minimum, recovers the state's administrative

costs. As provided by statute, the DGS goal will be to charge an appropriate rent that recognizes market conditions and operating costs and ensures that viable child-care centers are provided within state facilities when there is an identified need.

**RECOMMENDATION # 3:**        ***General Services should perform planned regional office space studies to ensure that it provides an adequate strategy for consolidating the state's office space.***

### **DGS RESPONSE # 3**

It is the goal of the DGS to perform regional plans within the time periods established in the RESD's internal guidelines. However, as discussed in the BSA's report, other operating priorities have prevented the full accomplishment of the internal objective of performing a comprehensive plan for each region every five years and an update of the plans for the state's four major metropolitan regions on an annual basis. As operating priorities allow, RESD staff are tasked to create or update plans. In fact, recently staff resources have been allocated to preparing four regional plans that had not been completed within the timeframes provided in existing guidelines. Currently, the four plans are being finalized.

It should also be pointed-out that we agree that the preparation of timely regional plans is one of the necessary components for providing an adequate strategy for consolidating the state's office space. Therefore, although internal timelines for completion of plans are not always met, a plan for a specific region would be immediately prepared or updated if the DGS became concerned with the adequacy of the existing plan for a specific region. As an overall operational policy, the DGS prepares comprehensive planning documents when needed to ensure the effective management of the state's office space needs.

### **CONCLUSION**

The DGS has a firm commitment to effectively and efficiently managing the state's real property assets. As part of its continuing efforts to improve program operations, the DGS will take appropriate actions to address the issues presented in the report.

If you need further information or assistance on this issue, please call me at 445-3441.

*(Signed by: Dennis Dunne for)*

BARRY D. KEENE, Director  
Department of General Services

BDK:RG:ca:worddata:director:2000-117rpt

# COMMENTS

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## ***California State Auditor's Comments on the Response From the Department of General Services***

**T**o provide clarity and perspective, we are commenting on the Department of General Services' (General Services) response to our audit report. The numbers below correspond to the numbers we have placed in the response.

- ① Unfortunately, we cannot comment on the content of the March 29, 2000, report because we were never made aware of its existence even though we began discussing our concerns about General Services' management of the child-care facilities leases with the deputy director of the Real Estate Services Division as early as September 2000. He did, however, give us a copy of the February 15, 2000 report, which we discuss on page 66 of our report.
- ② The Surplus Sales Unit may have been fully staffed in July 2000; however, before year's end, the unit had at least one vacant position. Further, although General Services states that it takes prompt action to fill vacant positions, its efforts have not always been sufficient. As we note on page 23, during the past three years, the Surplus Sales Unit handled all of the surplus property work with between one and three real estate officers even though the unit is authorized to have four.
- ③ Although General Services may use the Statewide Property Inventory (inventory) on a daily basis, we question its effectiveness as a property management tool. As we discuss in Chapter 3, the inventory lacks complete, accurate information critical for property management such as data on building occupancy and size, each property's current and future use, and surplus status. Moreover, as we note on page 53, most agencies we surveyed told us they do not use the inventory to account for or manage their properties.

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Milton Marks Commission on California State  
Government Organization and Economy  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press