EXECUTIVE SUMMARY

The Little Hoover Commission has concluded that California is failing to manage its property well because of inadequate procedures, organizational structures and mandates. As a result, the State is not using its assets to the fullest extent for the maximum benefit of its citizens. This report, the result of an extensive investigation and thorough analysis, presents the Commission's findings and outlines recommendations for a major overhaul of the way California handles its real property.

The State of California owns, leases and manages a significant number of real property holdings. As of July 31, 1990, the Department of General Services reported that the State owned 3,097 properties totalling more than 2.1 million acres. These properties include 18,633 structures with a total of more than 157.4 million square feet of space. In addition, the State leases more than 2,100 facilities with more than 14.1 million square feet of space. Thus, the State of California is one of the largest property owners and managers in the nation.

To manage these holdings, the State traditionally has adopted a "custodial" management style focused on keeping the real property it has and adding to its portfolio as capital outlay funds become available. This style of management tends to view state-owned real property as permanent fixtures that have value only in terms of their present use; any other value is unknown and irrelevant.

Only recently has the State considered adopting a "proactive" property management style that seeks to assure optimum use of and maximum value from State holdings. Such comprehensive and focused management is paramount in light of the State's need to maintain and expand its infrastructure as its population expands. The Legislative Analyst's Office has estimated that there is approximately $18.5 billion worth of needed projects over the next five years.

In line with its mandate to promote effective and efficient State practices, the Little Hoover Commission has been studying the State of California's management of its real properties since 1985. In March 1986, the Commission issued its first report, "California State Government's Management of Real Property," and concluded that the State's property management system is not strategic, is not systematic, and lacks performance incentives. The Commission recommended that the State authorize a pilot project for proactive asset management, create a centralized property inventory, and adopt an organizational structure for property management that ensures accountability. Subsequent legislation established a Statewide Property Inventory (SPI) and a proactive asset management pilot project.

Since 1986, the Commission has periodically held public hearings to monitor progress and to further explore the structure of real property management in the State of California, the relationship of property management to the capital outlay funding system, and the effects of current statutes, policies and procedures on effective real property management. The Commission's current study has resulted in the following findings:

FINDING #1 - THE STATE'S ORGANIZATIONAL STRUCTURE FOR DEVELOPING AND IMPLEMENTING A PROACTIVE PROPERTY MANAGEMENT SYSTEM IS INCOMPLETE AND INADEQUATE

The current organizational structure for acquiring, managing and financing real property for the State of California is divided among at least 76 separate administrative agencies. The authority and management structure of these agencies vary greatly and do not necessarily work in conjunction with each other or within a broad statewide structure. Although proactive property management may be followed to some extent in certain agencies, it is not coordinated among all agencies; nor is valuable real estate experience shared among the agencies. Moreover, the current statewide policy-making and property management entity is understaffed while the majority of personnel devoted to property management are located within different agencies. This problem is further compounded by the delegation to various agencies the authority to pursue property management; the delegation is made by the Department of General Services, the primary central manager of real property, because of a lack of sufficient resources at the Department of General Services. The foregoing policies are diametrically opposed to the effective centralized management of the State's real property, and have led to inconsistent policies, a lack of central accountability and a potential increase in state costs or loss of revenue.

FINDING #2 - THE STATE'S SYSTEM OF PLANNING FOR ITS LONG-TERM REAL PROPERTY AND CAPITAL OUTLAY NEEDS IS FRAGMENTED AND INCOMPLETE

Although the State has significant real property holdings and enormous capital outlay requirements, its system of long-term planning does not include a comprehensive listing of all its real property and capital outlay needs, a priority ranking of those needs and a master plan to address those needs. Moreover, the State lacks a systematic method of evaluating how existing real property might be used to satisfy current capital needs. Instead, the State's system is closely linked to its budget process, which reviews needs in the context of individual departments rather than on a statewide basis. In addition, the system for long-term planning does not consistently consider the infrastructure needs of existing facilities. Thus, when the State annually appropriates or authorizes bonds to generate billions of dollars to finance property purchases and capital outlay projects, it does so without a comprehensive, multi-year plan. Further, the State's system does not adequately address the needs of the State and ultimately could cost the State millions of dollars in lost opportunities and adversely affect its credit rating.

FINDING #3 - THE STATEWIDE PROPERTY INVENTORY, ALTHOUGH FINALLY COMPLETED AFTER LONG DELAYS, WILL REQUIRE ADDITIONAL WORK TO BE MORE EFFECTIVE IN THE PROACTIVE MANAGEMENT OF INDIVIDUAL PROPERTIES

More than a year after it was initially due, the inventory of the State's real property is completed. The Department of General Services accomplished a monumental task in developing the Statewide Property Inventory (SPI), but the SPI will need verification and additional information to become an even more effective tool in the proactive management of individual properties. The statute that required the SPI specified that it must contain a description of the current use and projected use of the properties; such descriptions, however, are not available for all properties. Further, although not required by law, the extent of the use and the estimated value of the properties also are not included in the inventory. These elements are critical to proper management of many of the properties; it is difficult to make decisions regarding properties without knowing what they are used for, how much they are used and what they are worth.

FINDING #4 - CURRENT STATE STATUTES, POLICIES, AND PROCEDURES INHIBIT THE PROACTIVE MANAGEMENT OF THE STATE'S REAL PROPERTY

The effective management of real property demands both the flexibility to consider a wide range of alternatives for the use of real property and the ability to respond in a timely fashion. Current legal and policy mandates, however, encourage a custodial, rather than proactive, attitude toward real property management. In fact, in most instances, the State's current statutes and policies discourage agencies from proactively managing their real property. Moreover, real property management is considered to be irrelevant to the primary mission of service delivery for most property-holding agencies, and there are no incentive programs in place to reward managers whose proactive stance in the management of the State's real property results in a financial benefit to the State. These statutory and policy barriers inhibit or delay the effective use of real property by extending the time needed to identify, reach agreement on and fund needed development or other alternative use of real property. Further, as a consequence of having no incentives for proactive management, the State may be losing out on opportunities to make more efficient and effective use of its properties.

In addressing these findings, the Commission's report presents 17 recommendations:

1. The authority, mandate and composition of the current Public Works Board should be significantly expanded to make it the central administrative structure for the State's proactive real property management system.

2. The revised Public Works Board should be responsible for the management of all the State's real property, except operating rights of way. The Board's property management responsibilities should include long-range planning, appraisal, acquisition, financing, day-to-day management, construction planning and oversight, disposal of excess property and joint development with public or private agencies.

3. A recommended composition for the revised Board:

   - Five Public Members (including the Chair), appointed by the Governor
   - Director of the Department of Transportation
   - Director of Finance
   - State Treasurer
   - State Controller
   - Two Senators, appointed by the Senate Rules Committee
   - Two Assemblymembers, appointed by the Speaker of the Assembly

4. The Public Works Board should have an independent staff that is headed by a Chief Executive Officer who serves at the pleasure of the Board. The staff should be organized into a Planning Division and a Real Property Management Division.

5. The Board should establish specific criteria for the "highest and best use" of each type of state property.

6. Revenues generated by the Board's proactive real property management should be allocated by the Governor and the Legislature among the Board (for current and future capital outlay costs), the agencies originally holding the properties and the General Fund.

7. The Governor and the Legislature should enact legislation that requires each state agency to submit to the Board an intermediate (5-year) and long-range (10-year) capital outlay plan. The Board should submit a multi-year, priority-ranked capital outlay plan for all state agencies as a part of the annual budget process.

8. As its mission statement, the Board should adopt a strategic and systematic proactive real property management process.

9. The Board should establish a systematic preventive maintenance program.

10. Legislation should be enacted to require state agencies to identify specific funds for real property management and maintenance, and to restrict the use of those funds to their original purposes.

11. Legislation should be enacted to require the Statewide Property Inventory (SPI) to include an exact description of property, its current and expected use, and the extent of its current use.

12. Legislation should be enacted that would require the SPI to contain estimated values for specified metropolitan properties.

13. Legislation should be enacted to allow the Board to lease out property for up to 49 years when it is in the best interests of the State.

14. Legislation should be enacted to allow the Board to declare state property as surplus.

15. The Board should conduct a legal analysis of all existing real property mandates to recommend legal and policy changes to ensure thoroughness and consistency.

16. Legislation should be enacted to allow state agencies to retain 20 percent of any revenues generated by the management of their property.

17. Legislation should be enacted to provide authority for individual and group incentives for superior proactive management performance.