

Executive Summary

The State's management of its real property assets has been plagued for many years by intractable problems. Recently, sincere efforts have been made to put those assets to better use and to better provide the facilities needed to make government effective. But those efforts have been hobbled by institutional inertia, political controversy and an organizational structure that provides neither accountability nor control.

Traditionally, attempts to improve real property management have been inspired by the need to stretch the State's resources and generate revenue. Those reasons are more important today than ever before.

Increasingly, however, it also is clear that reforming how state government functions internally -- through property management, through procurement of goods and services and through personnel systems -- is an essential precursor to improving the efficiency of those departments that directly serve the public.

The Little Hoover Commission believes some administrative and legislative changes could make the existing system function better. However, the Commission believes significant organizational restructuring is needed if significant improvements are to be realized.

At a minimum, the existing offices now within the Department of General Services (DGS) should be realigned and unified into a new department. But the State also should give serious consideration to establishing a

quasi-public corporation to manage its properties and provide needed facilities.

In either case, the State should look to competition, incentives and outsourcing as ways to encourage innovation and provide managers with the tools needed to make good decisions and to implement state policies.

Toward that end, the Little Hoover Commission makes the following findings and recommendations:

Finding 1: The State is still not pro-actively managing property.

Despite years of constructive criticism from a variety of sources, the State has not evolved from a caretaker of its vast real estate assets to a pro-active manager. Efforts have been made to identify surplus property, renegotiate leases, consolidate state agencies and reconfigure workplace standards. But the track record of these efforts reveals the untapped potential for managing the State's property.

Recommendation 1: The State should aggressively pursue more efficient and market-based management. It should infuse competition whenever possible to encourage innovation and economy. And it should more aggressively tap private-sector services to take advantage of unique opportunities.

The success of any attempts to pro-actively manage property will rest greatly on the mechanisms the State uses to pursue those goals. Pro-active management cannot be legislated, but the Legislature can provide the tools that property managers need to do a better job. Ambition also cannot be legislated, but departments and individuals can be expected to respond to economic and institutional incentives.

The Department of General Services could immediately implement this recommendation by taking the following actions:

- The department should more aggressively renegotiate leases, particularly as part of its efforts to execute some small-scale consolidation programs. The department should contract with private firms when necessary to take advantage of short-term market conditions.
- The department should expand its pilot project using private brokerage firms to gain more quickly the necessary experience

needed to implement a statewide program that efficiently meets client needs while protecting taxpayers against contract abuses.

- The department should redesign the Building Rental Account to establish individual building rents that reflect the market rates of occupancy. The department and its customers should negotiate adjustments to those rates to finance deferred maintenance projects. The department and its customers also should negotiate adjustments to those rates to finance tenant improvements that might facilitate organizational restructuring. The Legislature should be billed for its space costs, or those costs should be allocated over all state agencies, not just those in DGS-owned buildings. This would be the first step toward implementing earlier Commission recommendations that buildings be appraised regularly and that facility managers calculate an annual return on investment to evaluate the performance of significant state assets.
- To the extent allowed by law, private maintenance firms should be able to compete against DGS-supplied maintenance for service contracts. The contracts should provide a level of service that minimizes long-term maintenance needs. The bidding process should be reviewed to ensure that public workers have a fair opportunity to compete for maintenance contracts, to consider the policy concerns of differing wages and to provide the State with the best possible value.

The Governor and the Legislature could further implement this recommendation by taking the following actions:

- Legislation should be enacted granting all departments the option of contracting with DGS, other government agencies or private-sector firms for meeting their space needs. DGS should have the opportunity to bid on all proposals.
- All out-sourcing contracts should be reviewed by a central authority, such as the Department of Finance. The authority's obligation would be to determine that the decision to use a private-sector provider was in the best interest of the State.
- Legislation should be passed that allows departments to redirect 20 percent of the revenue from property-related activities or savings from space-related decisions to enhance existing programs.

Finding 2: The State's office consolidation efforts and construction projects, while subjected to much political scrutiny, lack effective economic review.

The State has long had a strategy of trying to consolidate office space -- to avoid the usually escalating costs of leasing, to accrue the equity of ownership and to remedy the fragmentation of its agencies. But efforts to coordinate the office space needs of the State have been troubled by an unclear process for deciding when to lease and when to own, an antiquated financing and legislative approval process, the lack of coherent siting policy -- and overall, inadequate review of what should be built where.

Recommendation 2: The State should establish a streamlined, yet rigorous, process for independently analyzing and winning legislative approval of large projects.

The process needs to reaffirm the Legislature's role of setting policy and funding priorities for construction of state facilities, while recognizing needs of property managers for expeditious review and approval. An effective process also would require clear strategies for siting, awarding design and construction bids and financing such projects.

The Governor and the Legislature could implement this recommendation in the short term by taking the following actions:

- Consolidation plans should be financially fashioned and physically sized after a review of both leasing and purchase options of existing structures are explored, as well as the program needs of prospective tenants and non-building alternatives for meeting those needs.
- The department should more aggressively assist departments to reassess their long-term space needs and explore alternatives for satisfying those needs, including telecommuting and space sharing.
- The Department of General Services should have the agreement of all tenant agencies needed to fill a new building before construction begins. Tenant agencies should agree to pay rent equal to the actual costs of occupying the new structure, including a long-term maintenance plan. (If a statewide interest exists in providing additional public spaces or architectural stature, an appropriation from the state capital outlay budget could be used to augment tenant contributions.)

- Legislation should be enacted clearly establishing a state policy of how and where state buildings will be constructed, the procedures for setting qualifications and awarding bids, and designating the appropriate point for legislative approval for all large projects and under various financing scenarios.
- The Legislature should create a standing joint committee to review and approve large construction projects and long-term leases. The committee and its staff would have the opportunity to build a greater expertise in order to provide thoughtful review, while providing the new department with the opportunity to build trust with the Legislature. Upon approval by the committee, the full Legislature would have 45 days to act on the proposal.
- The Department of General Services should adopt internal procedures for reviewing the rationales for a project prior to the commencement of construction to ensure that assumptions used in the planning process are still valid.

Finding 3: The State's major property management problems will be difficult, if not impossible, to resolve without significant organizational restructuring.

More than five years of effort on the part of the Executive Branch to reform property management practices without changing the organizational structure has failed to show substantive improvements. At best, the structural problems have made it hard for the State to be a pro-active manager and have created resistance to those reforms. At worst, the experience of recent years has shown that overall improvements will not be made until the State makes structural changes in real property management.

Recommendation 3: The State should unify its management of developed property. The unified entity should be independent yet accountable. It must be free to use market mechanisms and business practices and free from day-to-day political influence.

At a minimum the State must tear down the walls within the real estate arm of the Department of General Services so that it can more efficiently plan for and deliver property services. But the potential for reform is far greater, and the State should seize the opportunity to create a new

organization that can profitably manage its multi-billion-dollar property portfolio.

The Governor and the Legislature could implement this recommendation in the short term by taking the following actions:

- Legislation should be enacted creating a Department of Real Property Services separate from the Department of General Services. Planning, construction, leasing and maintenance should be unified to make more coordinated decisions about how to meet space needs of customer agencies, how to manage existing structures and how to blend technology, space design and management techniques to reduce space needs.
- The legislation should provide that employees of the new department will have a separate bargaining unit and the initial contract should include greater flexibility for offering merit-based compensation, broad classifications and expedited disciplinary appeals.

The Governor and the Legislature could implement this recommendation over the long term by taking the following actions:

- Legislation should be enacted creating a public corporation similar to the British Columbia Buildings Corp. The corporation should be financially independent and fee-based. It should be governed by a board appointed by the Governor and Legislature and could include constitutional officers, including the Controller and Treasurer. Its independence would allow it to make business-oriented decisions and to respond to market and technological changes to better serve customers. The corporation could be expected to provide services efficiently through economy of scale and access to public financing tools. While revenues could be reinvested in corporate programs, profits would be turned over to the General Fund.
- The corporation should be free to hire employees outside of the civil service system, and to enter into contracts with the private sector without approval from control agencies including the State Personnel Board and the Department of General Services.
- The corporation should purchase from the State all developed office space. After a period of organizational development, the corporation would have to compete for the services of all customer agencies. At that time, departments would be free to turn to the private sector, other government agencies, or to the corporation

to satisfy their space needs. This would provide the corporation with the time to organize, while ultimately providing the competition necessary to achieve even greater efficiencies than a unified monopoly can provide.

- The corporation should be granted the authority to decide building location, design and financing. Before the client agency could enter into an agreement with the corporation, however, it must prove that it has the funds to pay for any additional facility-related costs.
- The corporation should be directed to site buildings in compliance with the State's siting policy, while granting the corporation the authority to size and specify buildings to meet a client agency's needs and budget.
- The legislation should grant the corporation the authority to float revenue bonds and to tap private financing sources in order to provide the organization as much flexibility as possible.