Building Value:

Modernizing Property Management

Little Hoover Commission

September 2012

To Promote Economy and Efficiency

The Little Hoover Commission, formally known as the Milton Marks "Little Hoover" Commission on California State Government Organization and Economy, is an independent state oversight agency.

By statute, the Commission is a bipartisan board composed of five public members appointed by the governor, four public members appointed by the Legislature, two senators and two assemblymembers.

In creating the Commission in 1962, the Legislature declared its purpose:

...to secure assistance for the Governor and itself in promoting economy, efficiency and improved services in the transaction of the public business in the various departments, agencies and instrumentalities of the executive branch of the state government, and in making the operation of all state departments, agencies and instrumentalities, and all expenditures of public funds, more directly responsive to the wishes of the people as expressed by their elected representatives....

The Commission fulfills this charge by listening to the public, consulting with the experts and conferring with the wise. In the course of its investigations, the Commission typically empanels advisory committees, conducts public hearings and visits government operations in action.

Its conclusions are submitted to the governor and the Legislature for their consideration. Recommendations often take the form of legislation, which the Commission supports through the legislative process.

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This report is available from the Commission's website.

State of California

LITTLE HOOVER COMMISSION

September 25, 2012

The Honorable Edmund G. Brown, Jr.
Governor of California

The Honorable Darrell Steinberg
President pro Tempore of the Senate
and members of the Senate

The Honorable Robert Huff
Senate Minority Leader

The Honorable John A. Pérez
Speaker of the Assembly
and members of the Assembly

The Honorable Connie Conway
Assembly Minority Leader

Dear Governor and Members of the Legislature:

California's approach to managing its property assets is overdue for an overhaul.

The state owns millions of square feet of office space and leases millions more. But it doesn't know exactly what property assets it has or how they are used, and it lacks a statewide system to align changing space needs with opportunities for innovation and greater efficiency. With state government realigning responsibilities to local governments, new technology revolutionizing the workplace, and demand for government services shifting to new population centers, an overarching property management strategy is essential.

The state's current approach to property management is decentralized and lacks accountability. It is difficult to coordinate policy across departments or implement a strategy to maximize the efficient use of the state's property assets. In its review of the state's property management, the Commission found little change since its last study of the issue in 1995.

To improve efficiency and transparency, the Commission recommends that the Governor reorganize the state's property management functions and start the process for building a modern property management policy and strategy for implementing it.

As part of the process, the Commission recommends that the Legislature request the State Auditor to audit all state departments for their property holdings to provide a detailed picture of what assets the state owns and how they are being used. The audit also should examine departments' property management practices, including, where appropriate, their practices for leasing state property to non-government entities.

The results should be used to update and enhance the Statewide Property Inventory. This inventory should be the fundamental starting point for better property management. The state departments that feed data into the inventory, however, find it difficult to pull out information that they can use to plan for space needs or to manage consolidation. So does the public, which deserves the transparency that an up-to-date online inventory should provide.

A complete, user-friendly online inventory also would be valuable to enterprises interested in ventures that could provide the state needed revenue, be it from solar panels or cellular communications towers on leased state property.

Lacking a functional inventory and a program to maximize the value of its holdings, the state has embarked on periodic campaigns to find surplus property, with the goal of selling it to cover revenue shortfalls. Rather than a quick budget fix, the decision to sell surplus property should be part of a broader strategy that identifies, inventories, assesses and manages state property assets with the goal of maximizing program outcomes and long-term value to Californians. This policy and management deficit is long standing, and one the state cannot afford.

To address this deficit, the Commission recommends creating a new Department of Asset Management within the new Government Operations Agency. The new department should incorporate the functions of the Real Estate Services Division of the Department of General Services and consolidate property management activities currently spread out in different departments. As part of this consolidation, the new department should take responsibility for managing all state office buildings as it builds the capacity to do so.

It is essential for the state to be able to benefit from the best property management practices of experienced private property management firms. The Commission recommends that the new department create an advisory group of experienced private property management experts who can meet quarterly to advise the department on best industry practices and how they can be implemented as part of an overall statewide strategy. This group also should assess the state's performance as it implements the strategy. As part of relocating functions of the Real Estate Services Division, the state should take the opportunity to reorganize these functions into a new organizational structure that reflects best industry practices.

To the greatest degree possible, the department should be allowed to use the management practices and tools of successful private sector property management with the goal of providing high quality office space to state departments at competitive rates. This will require giving the new department authority over its budget and how it uses its revenues and providing greater flexibility in hiring to build management capacity.

California state government is undergoing tremendous structural change as a result of realignment of health and social services as well as public safety functions and Governor Brown's two reorganizations. These changes, together with the technology-driven transformation of the workplace, present a tremendous opportunity to find new ways to best use the property assets the state has to improve government performance.

Sincerely,

Daniel Hancock,
Chairman

Building Value:

Modernizing Property Management

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Executive Summary

As state government seeks to wring efficiencies out of state programs and assets and demonstrate responsible stewardship to California residents, its leaders should move aggressively to modernize the state's approach to managing its developed property and vast land holdings.

Governor Brown has taken an important step in this direction, asking departments to identify unused property that could be sold and directing the Department of General Services to renegotiate leases on privately owned buildings, where possible, to take advantage of changed market conditions and to help departments consolidate government operations where vacancies in state buildings exist.

The department functions as the state's real estate agent, serving as contracted agent and broker for many other agencies. The department's distinction as the state's single largest "owner" of office buildings – rented to government agencies and departments – has given it the status of the state's landlord, though it controls only a third of the state's office buildings and only a sliver of the 6.9 million acres the state owns.

Taken as a whole, however, California's approach to property management is decentralized, with little statewide coordination, cooperation or oversight. This leaves departments unable to manage their operations efficiently, develop realistic space plans or systematically coordinate with other departments to co-locate program operations to better serve the clients they share.

The issue regularly finds itself in the spotlight when chronic budget shortfalls spark calls to find and sell off surplus property, prompting a scramble to assess and package parcels with little thought given to a long-term strategy for managing either the state's developed property or its large trust holdings.

Shortly after assuming office, Governor Brown shelved plans to sell, then lease back, several office buildings, saying that the proposed deal would cost the state in the long run.

Governor Brown since has demonstrated his willingness to reshape state government to meet new conditions and to increase efficiency, changes the Legislature has supported in adopting laws to implement realignment and allowing two government reorganization plans to go into effect.

These changes alone should persuade the state to adopt a better approach to managing state property assets, given the evolving needs of a state government in transition and opportunities presented by shifts in demand in the commercial real estate market.

State policy-makers, however, have been slow to update California's approach to property management, despite new market opportunities as well as new technology, such as geo-spacial mapping and portfolio software that can aggregate information visually and easily highlight trends, challenges and opportunities.

The Little Hoover Commission in 1995 called for major reforms in its report, *California's Real Property Management: A Cornerstone for Structural Reform*. Its findings and recommendations are still relevant.

Revisiting the issue, the Commission has found little significant change and that the state requires a far more proactive overall approach to the ongoing management of its real property – an imperative that exists separately from the need to address any short-term budget shortfall through one-time property sales.

For this study, the Commission held hearings in October 2011 and January 2012. As part of its fact-gathering process, the Commission also held two subcommittee meetings, on asset tracking practices within state agencies and departments in January 2012, and on the state's ownership of fairgrounds in March 2012.

The Commission found that the state's overall property management practices lack cohesion, lack coordination across agencies, do not produce a reliable, complete account of all of the state's holdings, and have not kept pace with innovations and opportunities adopted by private sector property management organizations. Departments pursue property planning, maintenance and management in isolation, with little

Prior Recommendations of the Little Hoover Commission

The Commission's 1995 report, *California's Real Property Management: A Cornerstone for Structural Reform*, reviewed the state's property management practices and the organizational obstacles within the Department of General Services. The report also focused on improving state construction projects.

Most significantly, the Commission found that the state's major property management problems would be difficult, if not impossible, to resolve without significant organizational restructuring. The Commission recommended the state unify its management of developed property into a new independent, yet accountable organization. It recommended the new entity be free to use market mechanisms and business practices and also be free from day-to-day political influence. At a minimum, the Commission recommended the state tear down the walls within the real estate arm of DGS, adding that the ideal scenario would be to create an independent public corporation, governed by a board appointed by the Governor and Legislature.

Source: Little Hoover Commission. December 1995. *California's Real Property Management: A Cornerstone for Structural Reform*.

centralized guidance or oversight and no financial or legal incentives to maximize the use and value of the properties under their control – either to the benefit of their programs or to taxpayers.

> **Challenges in California's Asset Management**
>
> The outdated organizational design and budget and policy frameworks of California's asset management system produce inherent challenges:
>
> - A leadership vacuum on statewide asset management;
> - A lack of overarching policy or strategy for asset management;
> - A lack of broad planning by program or by region, with no strategic focus or direction;
> - Varying levels of authority granted to different agencies and departments, leading to further decentralization of real estate decisions and actions;
> - A lack of centralized and easily accessible information about the state's properties that complicates efforts to cooperate on property use;
> - An outdated tracking system (the Statewide Property Inventory) that fails to show a clear and comprehensive picture of state properties;
> - Misaligned incentives that perpetuate the status quo;
> - Departments left to their own devices to plan for asset needs; and
> - DGS charges that are higher than market rate for some services, causing departments to avoid using DGS services in some instances.
>
> The lack of comprehensive information about the state's properties means that the state has no realistic understanding of how to value its real property assets.

A fundamental problem: The state still lacks a central database that details all property in its hands. The Statewide Property Inventory, created in response to previous Commission recommendations, fails to provide an overall picture of what the state owns, whether departments are putting property to its best use, or whether opportunities exist to develop better uses for a specific holding. Given the shortcomings of the inventory, the lack of incentives for departments to develop higher value uses for state property, and the limited authority they have, the staff of the state's primary property management entity, the Real Estate Services Division of the Department of General Services (DGS), work as well as they can, according to people both in and beyond state government who have worked with the division. DGS, however, is not empowered to truly manage the state's assets proactively, using tools and strategies available to the private sector.

The Commission's findings are consistent with a report released in 2011 by the California State Auditor, which described deficiencies in the activities of the State Lands Commission, a body that manages mineral rights, leases and ownership of much of the state's land, primarily lands beneath waterways and those that were provided to California by the federal government in the 1800s to support schools. The state auditor's review revealed that the commission had failed to collect millions of dollars in rent money due to the state because it had neglected to update rates, renew leases and take action against tenants who had not paid.

Though the State Lands Commission has taken steps to address the audit's concerns, it remains an entity unconnected to any broader effort to effectively manage state properties. The State Lands Commission inevitably must be part of a wider policy for property management.

The evolving role of state government, combined with the imperative to make the most of taxpayer dollars, require an aggressive and rigorous statewide approach to managing state property assets, whether office space, land set aside for long-abandoned projects or property leased for such private enterprises as solar farms, mining or oil and gas extraction. Such an approach also is essential for maintaining and protecting lands held in trust by the state.

This approach must produce a system that is able to efficiently identify, inventory, assess and manage state property assets in a way that is both transparent and accountable to the public. This will require the state to build capacity in policy, leadership, data collection and management and oversight.

As a first step, the Legislature should request that the State Auditor conduct an audit of all state entities to establish what exactly the state owns, and use the results as the basis for a searchable, mappable database that is easy to use both by the public and the state departments that will contribute to it. The Legislature also should direct the State Auditor to assess how well departments that manage their own office space and facilities track vacancy rates, space utilization, maintenance and repair and how their practices, including internal rent rates, and rates on property leased to non-government entities compare to the private commercial market.

The audit results should be used to develop statewide property management policy that has as its mission ensuring the state makes efficient office space and other land-use decisions to drive better program outcomes, and that state assets are managed to their highest programmatic value. While state parks and other conservation holdings should be included in the updated Statewide Property Inventory, policy development should focus on making more intensive and efficient use of developed property used in state operations, such as office buildings, maintenance yards and correctional facilities, as well as high-value assets that can produce recurring revenue for the state, such as oil, gas and mineral leases of state property. Such high-value assets require intensive management and should be integrated into a single asset management strategy.

Implementing this policy will require centralized leadership and a strategic plan informed by the experience and advice of property management experts, from both the public and private sectors.

This mission goes beyond the existing capacity and authority of the Department of General Services' Real Estate Services Division. In its 1995 report, the Commission found that the state's major property management problems would be difficult, if not impossible, to resolve without significant organizational restructuring.

Based on testimony and interviews collected in the current review, the Commission reiterates this finding. Using the government reorganization process, the Governor should establish an independent department, separate from the Department of General Services, to manage the state's office space, as well as leases for private office space, and provide other real estate services for client departments.

A new Department of Asset Management should be placed within the new Government Operations Agency, which was created by Governor Brown's 2012 Government Reorganization Plan and will become operational in July 2013. The new department's focus should be on quality service to other state departments, with the mission of maximizing the programmatic value of the state's developed property assets. Its business practices should ensure that departments make optimal use of state-owned or leased space as determined by their program needs; that state departments pay rents that are competitive to comparable privately-owned buildings and that state property assets are properly maintained to retain value.

The functions of the Real Estate Services Division of DGS should be moved into the Department of Asset Management. Rather than replicate the division's existing structure, however, the Governor should take the opportunity to reorganize these functions for greater efficiency according to industry best practices. A separate branch should be created for managing oil and gas and mineral assets, currently the responsibility of the State Lands Commission, as these high-value holdings require special expertise. Policy-makers also should look for additional opportunities to move other functions of the State Lands Commission into the Department of Asset Management.

State-owned fairgrounds pose a unique property management challenge now that the state – as of January 2011 – has stopped funding District Agricultural Associations. Without funding or state staff, local associations are on their own to manage and use the 41-state owned fairground properties. The state should address this challenge by authorizing the creation of alternative ownership arrangements, such as joint powers authorities or public benefit corporations, that would keep the property in public hands, but allow greater local control and autonomy in managing the properties.

Planning, construction, leasing and maintenance of all state office buildings should be unified in the new Department of Asset Management to allow more coordinated decision-making in meeting space needs of customer departments, better management of existing structures and the integration of modern asset management practices and technology. The new department should be responsible for compiling and maintaining the Statewide Property Inventory, and working with other state departments to assess and meet their real estate needs as part of an overall management strategy. The Governor should start the process of consolidating property management functions that exist in other departments into the new Department of Asset Management. Ultimately, the new department should be responsible leasing, maintaining and building the bulk of the state's office space.

The new department must be given the flexibility to be able to adapt quickly to changes in the real estate market, and have authority to make and enforce decisions to take advantage of market opportunities as they arise that can provide benefit to the state. To launch the new department, the Governor should form an advisory committee of experienced private sector property management professionals to help the department adopt and adapt industry best practices and technology that have proven successful in the private sector. The department should be authorized to hire real estate and asset managers into exempt positions and be able to enter into contracts with private management firms where doing so benefits the state.

One goal of the department should be self-sufficiency, which will require allowing the department to retain rental revenues so that it can reinvest in state assets, whether maintenance and repair or renovations needed to accommodate new uses or new tenants. Such funds also should be used, when available, to help pay moving costs involved in consolidating government operations into underused or vacant state-owned office space. As one facet of its ongoing property management role, the department should be responsible for identifying and disposing of surplus state property, with such one-time proceeds used to pay down debt, applied to the state's maintenance backlog or put toward new construction. The appropriate statutes and regulations should be adjusted to give the department the authority to develop a disposition list of properties to be sold. The properties would be put up for sale unless the Legislature acted within 90 days of receiving the list to stop the sale.

The modernization of the state's property management system is long overdue. California's developed property and its trust holdings must be managed in a way that maximizes their long-term value to the programs they serve and to Californians present and future. An effective strategy will require harnessing the expertise that exists in the ranks of state departments with the experience and best practices honed over decades in the private sector. Above all, it will require leadership with the ability to balance enterprise and stewardship to navigate the challenges of the present for the benefit of future generations.

Recommendation 1: The Legislature should request that the State Auditor conduct an audit of all state properties held by California state government departments, boards and commissions. The results should be used to update and enhance the Statewide Property Inventory.

- The audit should determine how much property the state holds by department and detail how the property is used. The audit also should detail how much property each department leases from private landholders.

- The audit should describe the current property management and leasing procedures and policies of departments that control state office space and other developed property for their operations. The audit should detail vacancy rates, space utilizations and rent, as well as comparable private property rents. For departments or government entities that lease or rent state property to non-governmental entities, the audit also should describe how lease payments and contracts are monitored for timeliness, and how rates are adjusted to comparable market rates, as well as vacancy rates and space utilization of leased property.

Recommendation 2: The Governor, through the reorganization process, should create a Department of Asset Management within the Government Operations Agency, separate from the Department of General Services, to serve as the central state authority for managing California's real property assets, drive innovation to maximize state property assets and provide accountability to the public.

- The new department should be the repository of the Statewide Property Inventory and should be provided the resources to make the inventory a foundational tool of the state's property management strategy. The inventory must have an online interface designed to facilitate accessibility and ease of use for the public.

- The Governor should start the process of consolidating property management functions in state departments into the new department, ultimately bringing all state property management functions under the new department's control.

- The Governor should form a board of advisors made up of experts from California's top private sector property management firms that can help the state integrate up-to-date business practices and systems into the state's property management operations. The board should sunset after a fixed term. Members should serve as volunteers.

- The board of advisors should meet quarterly to review the department's business plan and ensure that the department is adopting and following best industry practices.
- Current Real Estate Services Division staff and functions should be moved into the new Department of Asset Management from the Department of General Services. Based on guidance from the board of advisors, the division should be functionally reorganized to align with best industry practices.
- The department should be the lead on identifying and disposing of surplus state property. Each year, the department should submit a disposition list of surplus property to the Legislature and sales should go forward unless the Legislature acts to stop them within 90 days of receiving the list.
- Proceeds from one-time sales should be applied to debt reduction or other one-time outlays.
- The Legislature should develop clean-up legislation that clarifies the distinction between "excess" and "surplus" property.
- The department should have the authority to reinvest rental income from state departments into repaying lease-revenue bonds as required, maintenance, or renovation to accommodate new needs or new state tenants.
- The department should have the flexibility to hire exempt employees to train and build management capacity and expertise, particularly in enterprise areas such as high-value leases.
- Once the department has management expertise in place, the administration and management of high-value oil, gas and mineral leases should transferred from the State Lands Commission to the Department of Asset Management.
- The new department should lead the effort to develop a comprehensive asset management policy, as recommended below.
- The new department should annually publish a report that explains how the department has enhanced asset management in the state, with specific performance measurements such as the revenue generated from state assets, office space cost per employee, average square-foot of space per employee, total

buildings sold and consolidation of office space use by departments.

Recommendation 3: California should create a clear asset management policy to guide property-related decisions by the Department of Asset Management and across state departments.

- The Department of Asset Management should serve as the central forum for drafting a comprehensive asset management policy for California, seeking input from others, including all asset-controlling departments, private-sector partners, the Department of Finance and other interested persons.
- Asset management policies should be codified in legislation to ensure permanence and enforceability.

Recommendation 4: The Legislature should enact legislation that provides more flexibility to district agricultural associations to pursue strategies that support and sustain the mission of local fairs.

- The legislation should enable the state to transfer state-owned fairground property to a joint powers authority, whose membership includes the district agricultural association and local governments, established to keep the property in public hands and expand options for communities that support the association's missions and local economies.

Property Management in California

Management of state-owned property is a perennially popular topic in California, never more so than in tight budget times. There often is a misinformed assumption that vast amounts of surplus government real estate holdings sit unused and easily could be sold off to raise revenue.

The state is indeed a huge landowner in California, and while much of the state's holdings sit empty – in part by design – little of it is officially designated as "surplus." The process of getting property declared surplus is difficult, both for political and policy reasons, and even surplus land sometimes isn't easily sold.

The most recent attempt to sell state property occurred during Governor Arnold Schwarzenegger's administration. As part of the 2004 California Performance Review, administration officials developed a list of high-value, urban properties – mainly fairgrounds, prisons and centers for the developmentally disabled – that the state potentially could sell. The process led to only one property getting past the proposal stage – the Orange County Fairground – but litigation, and missteps in the sales process, led to a court ruling that forced the parties to start over from the beginning.

Facing continued budget gaps, as part of the 2009 state budget negotiations, Governor Schwarzenegger and the Legislature developed a plan to sell, then lease back, 11 state-owned office buildings and properties aimed at raising approximately $1.2 billion. The process was not without cost; many hundreds of hours of staff time across departments were consumed in the process of determining properties that could be packaged for sale. The deal was held up by a lawsuit that lasted beyond the Schwarzenegger administration.

When Governor Edmund G. Brown, Jr., assumed office in January 2011, he dropped the land sales. The sale of the state office buildings, particularly during a real estate slump, then leasing back the office space from private owners ultimately would cost the state more than it would gain, Governor Brown said.

Instead, Governor Brown in May 2011 directed state agencies to identify and report state property holdings to the Department of General Services in an effort to identify and get rid of excess properties that serve no programmatic need. State agencies already are required to report this information to the department, but compliance has not been consistent or complete. Governor Brown also asked departments to review opportunities for physically consolidating state departments into under-utilized state-owned space, a request he reiterated more formally in an April 2012 Executive Order.

Such shifts in approaches to property management are not uncommon as administrations – and legislative members – change. California's dispersed holdings of state property among scores of agencies and departments complicate any one department's effort to systematically catalog state property information, or to understand how these lands and buildings are managed. The process of identifying and selling state property takes time and by statute and regulation, requires a series of steps to accomplish, which is appropriate for an asset held for the public's benefit.

For the next several years, revenue generated from any sale of state property would not go to the overstretched General Fund but instead toward paying off economic recovery bonds, one-time borrowing done with the intention of eliminating a previous budget gap. Paying down bond debt relieves pressure on the General Fund by reducing debt service payments, but not by as much as applying the full proceeds of a big property divestiture. Paying down bond debt is an appropriate use of one-time proceeds, as are other non-recurring outlays, such as a capital project. Using a one-time windfall to address recurring expenses has the danger of distorting the true size of ongoing revenues, creating the potential to add to the state's chronic budget shortfall.

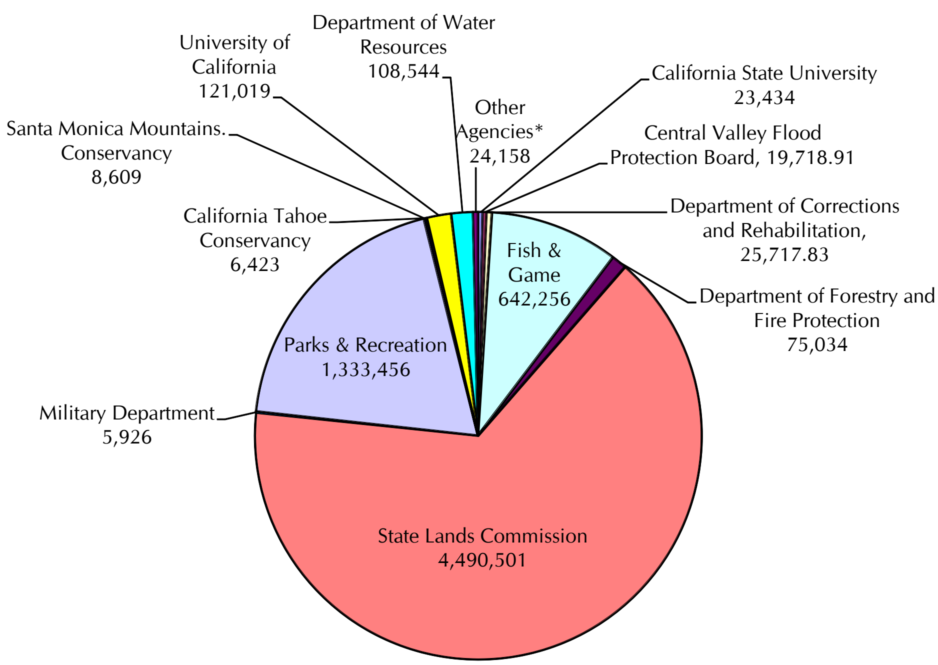
Focusing on "surplus" land and generating revenues from land sales has tended to displace deeper discussion about proper practices for managing public property that go far beyond finding and selling surplus property. Done right, a more rigorous statewide approach to property management could increase state efficiency by ensuring state-owned office space meets program needs, save money by optimizing space use, reduce the need for leased space and insure the state is receiving appropriate value for the properties it leases to non-state entities.

California's Assets

California's property holdings include unspoiled desert and coastal bluffs, urban parking lots and winding waterways, mudflats and steeland-glass office buildings. These properties consist of owned and leased property for a range of public purposes, such as university campuses, highways, parks, prisons, levees, reservoirs and canals, mental hospitals, veterans homes, state fairs, fire stations, forensic laboratories and office buildings.[1]

According to the Statewide Property Inventory, the state owns 2,920 real properties and 2,306 buildings. Its holdings total roughly 6.9 million acres across California,[2] representing about 6.7 percent of California's acreage.[3] The state's single largest holder of public land is the California State Lands Commission. The 4.5 million acres under its jurisdiction represent roughly 65 percent of state land. The graphic below shows the breakdown of acreage by agency.

Land Ownership Among State Agencies (in acres)



Total acreage: 6.91 million

***Other Agencies:**

Coachella Valley Mountains Conservancy: 2,789
Coastal Conservancy: 3,190
Department of Developmental Services: 2,116
District Agricultural Associations: 3,164
California Exposition and State Fair: 855
Department of General Services: 2,004
California Highway Patrol: 629
Department of Mental Health: 2,670
San Joaquin River Conservancy: 2,527
Department of Rehabilitation: 3
Health Planning & Development: 2
Judicial Council: 201
CDE – Diagnostic Centers: 8
Conservation Corps: 176
Department of Consumer Affairs: 3
Department of Education: 159
Employment Development Department: 41
Department of Food & Agriculture: 119
Department of Public Health: 30
Department of Justice: 10
Legislature: 2
Lottery Commission: 16
Department of Motor Vehicles: 242
California Science Center: 152
Department of Toxic Substances Control: 52
Caltrans: 1,998
Department of Veterans Affairs: 2,512
State Water Resources Control Board: 465
Air Resources Board: 2
Department of Boating and Waterways: 23

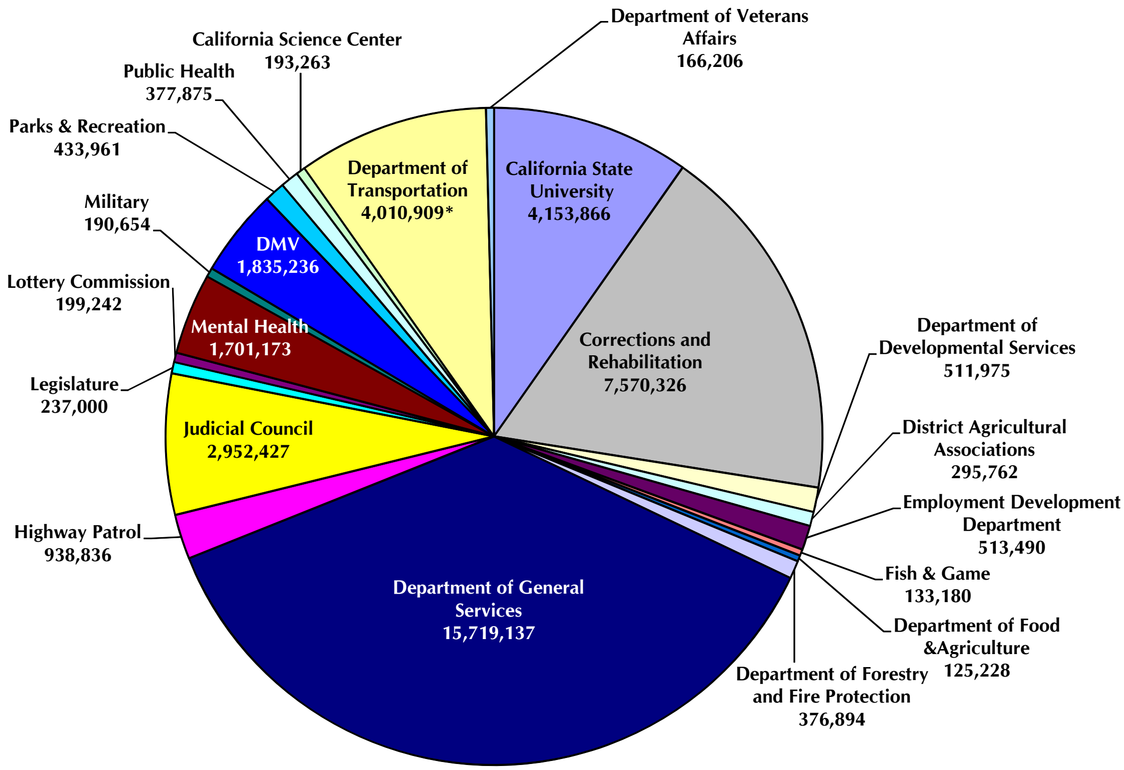
Source: Department of General Services. "SPI Inventory Summary." http://www.dgs.ca.gov/resd/Home/SPIhomepage/SPISummary.aspx. Web site accessed on October 7, 2011.

Organization of State Property Management

The Department of General Services (DGS) is the hub for information about almost all of the state's property. The department also serves as the contracted real estate agent and broker for many state agencies.[4] DGS also controls more office space than any other department, 15 million square feet of state-owned buildings, though that total represents less than a third of the state's total office space by square footage.[5] The department is the leasing agent and leaseholder on roughly the same amount of privately-owned office space – held for other state departments, agencies, commissions and boards.

These activities have created the perception that DGS functions as the state's property manager. By comparing its holdings to other departments and its scope of authority to manage or control properties held by those other departments demonstrate that while DGS has a significant transactional role statewide, its management function is minimal in terms of implementing or administering a statewide property management strategy.

Control of Office Space Among State Agencies
(in square feet)



*Does not include Highway Operating Right of Way and Airspace

Source: Department of General Services. "SPI Inventory Summary." http://www.dgs.ca.gov/resd/Home/SPIhomepage/SPISummary.aspx. Web site accessed on October 7, 2011.

Though most of the department's holdings are office buildings and DGS serves as the state's single largest office landlord, the department is not among the top dozen state land holders. Of the state's total 6.9 million acres of property, DGS has direct control over only about 2,000 acres, less than one-hundredth of a percent of total state-owned property. The remaining public property holdings – office space or otherwise – are under the direction and control of other agencies.

In its role as real estate agent and broker, the Department of General Services' Real Estate Services Division is a service provider and facilitator for client agencies. The unit, however, has no authority to oversee how other agencies manage their properties. Other agencies and departments therefore act under their own authority and judgment in conducting asset management planning and development. Agencies and departments operate under varying and separate authorities and code sections to manage properties under their jurisdiction. During an earlier push to find and divest surplus property, the Department of General Services was called upon to serve as the state's "surplus property cop," but that authority ended about a year later in 1995.[6]

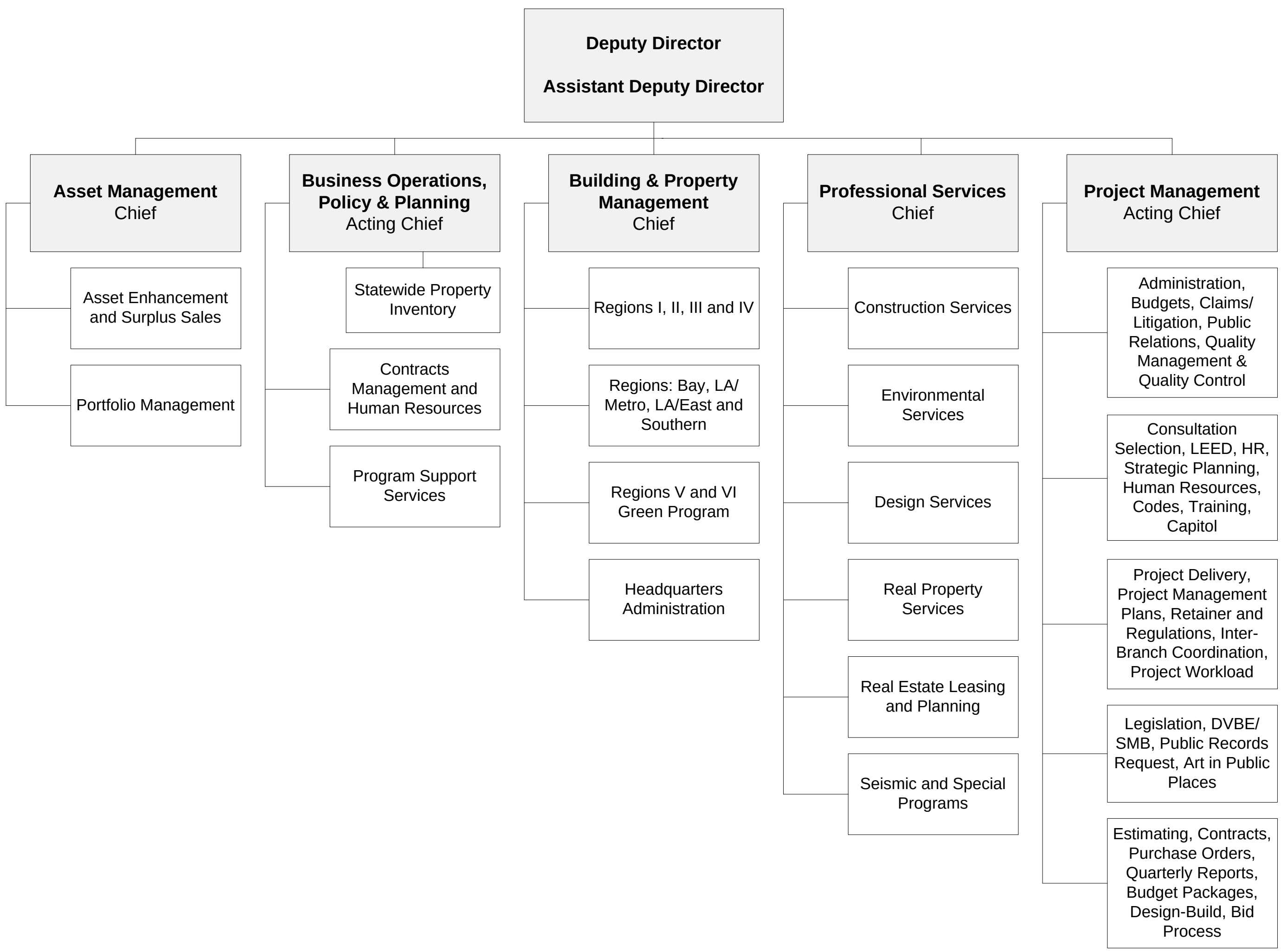
The department's Real Estate Services Division houses all real estate functions and programs. It is made up of five main branches: Asset Management; Business Operations, Policy and Planning; Building and Property Management; Professional Services; and Project Management. It also is home to the Statewide Property Inventory, once envisioned as a vehicle to move the state toward a more systematic and transparent model for property management.[7] The Real Estate Services Division is divided by service areas, but it lacks a central branch or unit devoted to determining overall state asset management strategies or coordination of asset management across departments, or even across branches within DGS.

Asset Management

The Asset Management branch serves as the initial point of contact in the Real Estate Services Division for agency clients and is the single point of entry for other departments when requesting new services. The branch also is responsible for maximizing the performance of the state's real estate assets by identifying and implementing strategies for enhancing the value of unused and underutilized state-owned properties, to the extent that these services are engaged. The branch is responsible for initial screenings of proposed projects for consistency with regional facility plans and for developing rent structures for DGS-held buildings. The unit also is charged with preparing long-term forecasts and developing regional plans and implementation strategies for future state office requirements.[8] One of the programs within the Asset Management Branch is the surplus sales program.

Given the department's desire to build its asset management capacity and to enhance the value of property proposed for sale, DGS has upgraded its asset management practices over the last 30 years. But the asset management unit's innovative approaches have tended to focus on individual projects and parcels, not on improving management of the state's full portfolio of property assets in general. Even planning for regional facilities has waned in recent years, with the last plan published for the San Francisco region in 2009.[9]

Department of General Services Real Estate Services Division



Source: State of California. Department of General Services. Real Estate Services Division. Organizational Chart. http://www.documents.dgs.ca.gov/resd/RESDorgchart_web/RESDorgchart.pdf. Accessed on October 6, 2011.

Statewide Property Inventory

By law, state agencies, departments, boards and commissions must annually report their property holdings to DGS, where the data are input into the Statewide Property Inventory database.[10] The database was created by legislation in 1986 in response to the Commission's report issued earlier that year, *California State Government's Management of Real Property.*[11]

The Statewide Property Inventory (SPI) contains information about the state's real property assets, including land, structures, improvements and leased space, as well as state-owned space leased to others, with an important exception. The database does not include the Department of Transportation (Caltrans) – Highway Operating Right of Way and Airspace, as Caltrans is not required to provide this information.

Also, according to SPI staff, agencies sometimes do not comply with requirements to submit information, resulting in a database that is incomplete and inaccurate.

Identifying Surplus Property

In addition to the requirement to report all property information to the Statewide Property Inventory, all state agencies must annually report surplus property to DGS. Caltrans again is an exception, and has a separate process for identifying and disposing of surplus property.[12]

California's Government Code includes multiple and duplicative requirements for agencies to review their property information, report properties and surplus properties, and review surplus properties available before purchasing or leasing property.[13] The code differentiates between "excess" and "surplus" property. In addition to the surplus property reporting requirement, the code has separate annual reporting requirements that each agency review and report *excess* property to DGS for a report to the Legislature. Exempt from the excess property reporting requirement is land transferred to the state as a result of unpaid tax debts, land necessary to build or maintain highways, land administered by the State Lands Commission, land transferred to the state or distributed to the state by court decree from the estates of deceased persons, and land under the jurisdiction of the State Coastal Conservancy. Excess property includes land not currently being used at all or not used to its fullest potential; land not identified for a future program need, or land not mentioned in a state agency's master plan for facility development.[14] Given these different requirements, the practical definition of what is considered "surplus" versus "excess" is unclear.[15]

Once state property is authorized by the Legislature as surplus, other state entities have an opportunity to consider use of the property. Local governments, and in some cases non-profit organizations, have first right of refusal on surplus property, which can significantly delay property sales.[16]

The 2011 annual report on surplus property listed 27 surplus properties that the Legislature has authorized for sale and added two new properties to the surplus list for the Legislature to consider. The majority of these properties were authorized as surplus by the Legislature in 2008 and 2009, though others have been on the list for more than a decade.[17]

Big Player, Low Profile: The State Lands Commission

The State Lands Commission is an independent agency whose mission is to serve the people of California by providing stewardship of the lands, waterways, and resources entrusted to its care through economic development, protection, preservation and restoration. It is led by a small board, consisting of the Lieutenant Governor, State Controller and the Director of Finance.[18]

In addition to managing tidal lands, lakes and navigable rivers and sloughs, and ocean bottom within three miles of the coast, the State Lands Commission also manages nearly 500,000 acres of lands granted to California by Congress in 1853 to support the public schools, and nearly 800,000 acres of mineral rights.[19] As part of its responsibilities, the commission also runs an Oil Spill Prevention program by regulating operations at the state's 80 marine oil terminals and its offshore oil platforms, and it administers the ballast water management program to prevent the importation of invasive species by vessels from outside California.

While the State Lands Commission reports information about its holdings to the Statewide Property Inventory, it otherwise maintains its own authority to manage, lease, or sell property on behalf of the state.[20] The commission oversees and manages more than 4,000 leases, including roughly 900 agricultural, commercial, industrial, right-of-way and recreational leases; 85 revenue-generating oil and gas, geothermal, and mineral leases; and 3,200 rent-free leases. Some of these leases, such as offshore oil and geothermal leases, are enormous sources of revenue for the state, bringing in tens and sometimes hundreds of millions of dollars annually depending on the market.

New Era for California Fairs

General Fund contributions to California's state fairs ended January 1, 2012, ending a decades-long practice of state support that reflected the fairs' importance in promoting the state's agriculture industry. The elimination of funding support, however, did not sever the state's ties to local fairs.

Of California's 78 state fair entities, 52 currently are organized as district agricultural associations, which are state agencies that employ a combined total of roughly 600 full-time state employees. Of the 52 active associations, 41 control state property. Aside from the California State Fair, which is itself a state agency, the remaining 11 organizations consist of county government or non-profit organizations. In those cases, the fairground is owned either by the county, a non-profit group or a joint powers authority, or the associations lease space from another entity.

In past years, California fairs received roughly $32 million annually, an amount which covered the Division of Fairs and Expositions, staffing and auditing as well as financial support for individual fairs. For the fairs operated by associations on state-owned property, it remains unclear how these associations – overseen by state-appointed boards with state employees – will continue to operate in the absence of state support. To prepare for the withdrawal of state funding, the secretary of the Department of Food and Agriculture last year convened a consortium of fair operators and vendors to offer recommendations to the secretary on how to restructure the district agricultural associations. These recommendations have been forwarded to the secretary, but not yet made public.

Previous Reviews of California's Property Management Practices

The Little Hoover Commission's interest in improving the state's property management goes back to the mid-1980s.

The Commission previously studied property management in 1985 and 1986, when it conducted a review modeled on work by the federal Grace Commission, which had successfully identified ways the federal government could better manage its property. In its report, *California State Government's Management of Real Property*, the Commission concluded that the state was not strategic in its planning, management and use of property. The Commission issued a follow-up report in 1990, *Real Property Management in California: Moving Beyond the Role of Caretaker.*

Capitol Area Development Authority

In 1999, the Commission reviewed the Capital Area Development Authority, a joint authority of the state and the city of Sacramento established in 1979 to develop and manage residential and commercial properties on land the state purchased surrounding the State Capitol in the 1960s. The Commission found that the authority had served its purpose, but was providing no return on investment for the state from the properties it had built and leased on the state-owned land. The Commission recommended the secretary of the State & Consumer Services Agency conduct a sunset review of CADA. Governor Brown, in his May 2012 budget revision, has asked the Department of General Services to review the CADA properties. The California Performance Review report on high-value urban properties listed the CADA properties as warranting further review.

Source: Little Hoover Commission. January 1999. *CADA: An Opportunity to Advance and Protect the State's Investment.*

In 1992, the Commission adopted an issue paper, *Squeezing Revenues out of Existing State Assets*, which recommended short-term changes to reduce costs and generate revenue during the fiscal crisis in the early 1990s.

The Commission's 1995 report, *California's Real Property Management: A Cornerstone for Structural Reform*, reviewed the state's property management practices and the organizational obstacles within the Department of General Services. The report also focused on improving state construction projects.

Most significantly, the Commission found that the state's major property management problems would be difficult, if not impossible, to resolve without significant organizational restructuring. The Commission recommended the state unify its management of developed property into a new independent, yet accountable organization. At a minimum, the Commission recommended the state tear down the walls within the real estate arm of DGS. The Commission said that the ideal scenario would be to create an independent public corporation, governed by a board appointed by the Governor and Legislature.

California Performance Review

Findings by the California Performance Review prompted Governor Schwarzenegger in 2004 to issue an executive order to conduct an overall review of state property management. The review had found that the state owns millions of acres of real estate, some located on patches of the state's choicest land. As in prior Little Hoover Commission and Bureau of State Audit reviews, the review found that the state lacked a centralized authority to manage its real estate assets and to identify and sell surplus properties. The review recommended the Consumer Services Agency be given this role and authority. The review was critical of current law which allows sales of properties at less than fair market value as well as requirements to offer first right of refusal to local governments and certain non-profits. The review recommended the state amend these laws to expedite the property sales.[21]

Governor Schwarzenegger's 2004 executive order called for a comprehensive review of the state's asset portfolio for potential high-value urban properties to sell. That effort identified 49 properties worth between $1.6 billion and $4.3 billion, depending on potential zoning changes and entitlements. Values for the Del Mar Fairgrounds property, for example, ranged from $355 million to $1.4 billion, depending on how it could be zoned. Many of the facilities included on the list were facilities that were still in use, but had, because of their size or location, the potential to realize significantly higher value if put to their "highest and best use." These properties, for the most part, were fairgrounds, prisons and centers for the developmentally disabled.[22]

California State Auditor

In 2001, the California State Auditor's Office issued a report that focused on how state agencies handle surplus state-owned real estate. The bureau identified numerous concerns, including the state's lack of assurance that its properties are being carefully evaluated to determine if properties should be sold, because no entity has broad oversight of state property. In legislative hearings in May 2008, legislators expressed similar concerns and as a result, the bureau conducted a follow-up review of the state's progress implementing its prior recommendations and in March 2009 reported its findings back to the Legislature.

In a 2009 report, the State Auditor found that the state still lacks assurance that underused or unused properties are sold to generate revenue or are put to better use. The state still has not empowered an existing agency or a new independent authority to oversee and scrutinize property retention decisions of individual agencies. It found that while the Department of General Services has improved in some areas, it continues to submit annual reports late and has not performed planned studies of regional office space needs.

In August 2011, the State Auditor issued its review of the State Lands Commission that found weaknesses in the commission management of public lands. The auditor cited examples of rent not being paid, expired leases, properties not being appraised, possible undervaluing of certain types of leases, failure to conduct audits of oil and gas leases and failure to audit the use of funds related to land leased to local governments.[23] The State Lands Commission responded to the audit in a letter that agreed with many of the auditor's findings, but emphasized the overall growth in state revenues from its work, alongside major staff reductions over the years and the addition of many new programs that do not relate to property management, such as oil spill prevention and inspections and ballast water testing. Since the audit, the State Lands Commission has taken steps to respond to the Auditor's evaluation.

The Governor's 2012-13 budget adds $2 million to the Commission's budget and nine new positions for financial audit activities related to management of oil, gas and other mineral resources, and to ensure compliance and prompt payment on surface leases, which are expected to annually generate $6.6 million in General Fund revenues. An additional six positions were included to execute land exchanges for renewable energy-related projects that are required by new legislation.

System Changes Needed

The state's current fiscal environment has put pressure on the Department of General Services and other state departments to review and report on surplus property, but there have been no efforts to make changes at the broader level in order to better manage the state's property portfolio as a whole.

Now more than ever, state agencies must plan and act strategically to use property assets to their maximum potential, and to the extent possible, avoiding the sale of state property at depressed prices. An additional concern is that many of the state's fairgrounds, which no longer receive General Funds, requiring the state to reconsider how lands are managed by Governor-appointed local fair boards. Also of concern is the performance of the State Lands Commission, the largest holder of state lands.

Toward Strategic Management

Despite incremental improvements to its approach to property management over the past few decades, California's management of its real property has not kept pace with modern-day asset management practices, leaving California with missed opportunities to use its existing properties more intensively and efficiently and in some cases, generate revenue. Asset management functions are scattered across state departments with varying authority to control their assigned lands and buildings, and no single entity provides leadership, strategy or accountability to ensure that state assets are used to their fullest potential. Agencies conduct their asset management functions in isolation, with little guidance from the state and no financial or legal incentive to innovate in how they maximize the use and value of the properties under their control to the benefit of their programs or for the taxpayer.

The outdated organizational design and budget and policy frameworks of California's asset management system produce inherent challenges:

- A leadership vacuum on statewide asset management
- A lack of overarching policy or strategy for asset management
- A lack of broad planning by program or by region, with no strategic focus or direction
- Varying levels of authority granted to different agencies and departments, leading to further decentralization of real estate decisions and actions
- A lack of centralized and easily accessible information about the state's properties that complicates efforts to cooperate on property use

Given budget-driven workforce changes under way in state government, and the changes that will result from realignment, generational transition in the state workforce and the potential for technology to transform the nature of state workplaces, California state government needs to take a proactive approach to strategic property management that focuses on its future program and workforce needs as well as its stewardship responsibilities for land held in public trust.

Such a system must be able to efficiently identify, inventory, assess and manage state property assets in a way that is both transparent and accountable to the public. This will require the state to build capacity in policy, leadership, data collection and management and oversight.

Asset Management Policy Needed

California currently lacks a general policy to guide asset management decisions by the various departments across the state. California's current decentralized approach to property management is not designed to be strategic or entrepreneurial, and has not shown the capacity for long-term planning or the ability to respond to changes in the marketplace to get the maximum value from its properties. Nor has the state been systematic in identifying and articulating goals for its varying purposes for holding property in the public interest, whether for floodplain protection, habitat restoration, land-banking for future needs, or other programmatic or public trust missions.

This has left the state ill-equipped to address growing commercial interest in state property and take advantage of opportunities to use state property more intensively short of selling it.

California's lack of a proactive, government-wide policy creates disincentives for departments to act on their own. For example, if a department has property that it does not currently use, there is no incentive for the department to take action to put the property to use – whether by way of leasing it out, sharing it with another department or selling it. As a result, unused or underused property is banked.

The desire to hold onto property that may appear surplus was particularly evident in 2004, when a DGS strike force team initiated by Governor Schwarzenegger developed a list of 69 properties that DGS staff investigated and identified as surplus. The list went up through the agency secretaries, who argued for why the properties were needed; the list soon disintegrated. Only a handful of the properties initially listed ended up in the surplus bill for that year.

To a large extent, the focus on finding surplus developed property that could be potentially sold to pay down debt or apply to the state's maintenance backlog has displaced discussion or the creation of statewide policies for joint-use or ground leases of developed state property that could generate revenues for the state, allowing the state to retain ownership.

In many instances, departments do not have the capacity to take on additional duties that may be required to put assets to their best use. For example, Caltrans has been approached by companies interested in leasing Caltrans property for cellular communications towers, but the department lacks the staff expertise to take on the management of these leases.[24] Ideally, such potential lease opportunities should be routed through the Department of General Services, but Caltrans employees told the Commission they have been dissuaded by the transaction fees charged by DGS and the time and effort required to draw up a contract through DGS.[25] These departments and others have pointed out how a simple matter of drawing up a standard contract can face complications due to what they describe as a conflict between DGS's role as service provider and its function as a control agency.

As departments do not share in the proceeds of a sale or a ground lease, they have little incentive to report surplus property information. Despite the requirement to do so, there is little follow up or penalty for failure to comply, different department staff members told the Commission.

Under Proposition 60A, enacted by voters in November 2004, proceeds from the sale of most state property must to be applied to principal and interest of the $15 billion in Economic Recovery Bonds authorized by voters earlier that year. Though little revenue from property sales has been applied to the outstanding debt, the state is slowly paying down the recovery bonds through a mandated annual allocation of approximately $1.2 billion generated by a dedicated quarter-cent of the state's sales tax. As of August 1, 2012, the state owed $5.9 billion of the original $15 billion and was on track to pay off the bonds by 2018.[26]

An audit alone might improve asset management by state departments. In Texas, for example, the state began requiring the General Land Office in 1995 to evaluate all state property every four years, or 25 percent of its property each year. The office evaluates the value of the lands and their current uses, and helps identify when they are being underused or unused. Specifically, the review looks at appraisals, analyses, location, type of property, current use, highest and best use, appraised value, topography, and how the land is improved, to name a few. Staff in the General Land Office says that this heightened authority and review has improved management and planning of state assets.[27]

State System Needs Centralized Leadership

Because the state lacks a centralized and controlled asset management system, numerous players make department-specific property-related decisions under disparate authorities granted to the many dozens of agencies and departments across the state. The activities of the Department of General Services represent the state's largest nexus of real estate operations, but the department's ability to influence is limited by its lack of authority to require other departments and agencies to properly identify, inventory, assess, manage or sell state property. The department's role is more transactional than managerial, providing real estate services to client agencies; it has authority over roughly one-third of the state's total office space, all other lands and buildings are controlled and managed by other state entities, which in many cases take the view that they "own" them. Still, for many state agencies, DGS effectively is their landlord. And for most private building owners who lease space to state departments, DGS is the state's real estate agency.

The department also is the repository of the Statewide Property Inventory, a database set up to list most of the state's land and buildings.

Given the service functions of DGS and its role as custodian for state property information, the department often is called upon by the Legislature and the Governor to provide information about all of the state's real properties, though it has neither the authority, expertise nor structure to serve as an asset management oversight body, let alone an authoritative voice on state property.

The current organizational framework and practical realities of California's asset management system leave the state with no one person or entity to take the lead to ensure system effectiveness. DGS collects information and provides services. Lawmakers pass legislation to approve piecemeal property-related transactions. State departments manage the day-to-day functions of managing property and are only required to submit five-year infrastructure "wish-lists" to the Department of Finance, which is statutorily required to publish a statewide infrastructure plan for the Legislature. This plan was most recently updated in 2008. Departments also are responsible for ensuring DGS has updated property information for the Statewide Property Inventory, though no one oversees compliance with the reporting obligations.

The State Lands Commission operates quite separately from other state entities. The Commission heard testimony about the State Land Commissions staffing issues, which its executive director said contributed significantly to its backlog (and which the Legislature has addressed through budget adjustments). Its Mineral Management Resources Division oversees oil, gas, geothermal and mineral leases of state-owned land. In addition, the commission is responsible for auditing revenues of oil leases on state-owned tidelands in the city of Long Beach. According to a 2008 staff report to the Legislature, because of staff cutbacks, the Long Beach operations required a full-time auditor, leaving two others for mandated audits of the remaining oil and gas leases. Given the workload and staffing, "many state leases may never be audited."[28]

In a 2011 audit, the California State Auditor found that 140 of the commission's nearly 1,000 revenue-generating leases had expired (and had not been extended or renewed) and 130 leases were past due on rent. In one instance, the audit found that a company had remained on state land for 22 years without paying rent. The commission had not sought eviction or penalties from the company, which had subleased the property and was collecting rent for itself.[29] The audit found that the commission does not reappraise leased properties as often as allowed and that it used outdated appraisal methods. In response to the audit, State Lands Commission staff developed and is working through an action plan addressing specific State Auditor comments, and is in the process of developing a strategic plan.

California at one time had an asset management office inside of the Governor's Office, which provided a central coordinating role for asset management across state programs. The office was created in 1989 and placed within the Governor's Office of Planning and Research with the charge of proactively managing state property assets. The office was dissolved in the late 1990s. John Salmon, former director of asset management under Governor Wilson, told the Commission that the only way to remove institutional barriers inherent in managing property across departments and minimize political meddling was to have "strong and effective leadership from the top of the executive branch."[30]

Property Inventory Inadequate for Managing

The Statewide Property Inventory is the state's main record system for tracking property assets, yet department managers told the Commission that it provides little to no help to them in meeting their property management needs, though maintaining the inventory requires a good deal of staff time and attention across state departments. Departments are required to submit and ensure the accuracy of the property information in the Statewide Property Inventory database, even though many of the departments maintain their own separate databases that cannot interface with the SPI system, resulting in considerable duplication of effort.[31]

Created in response to previous Commission recommendations, the SPI was intended to provide policy-makers with comprehensive information about the state's properties. Yet, the database is cumbersome to use and does not provide an easily accessible picture of state holdings. Instead, it

Statewide Property Inventory

To update the Statewide Property Inventory, the Department of General Services each year sends agencies a CD listing the agencies' known property holdings. Each agency must respond as to whether the information is complete and accurate. In an effort to boost compliance, this response now must be certified with the department director's signature. For each record, the agency is charged a small fee. Revenues from the sale or lease of a property – or the consolidation of office space – do not stay with the agency but are directed to the General Fund or to pay down recovery bond debt.

Legal documents relating to the properties submitted to SPI staff often do not accurately match the agencies' descriptions of the properties. SPI staff often catches mistakes made in the legal documents, and sends the documents to other parts of DGS or other agency staff for reconciliation. The database also can be used to note the need for lease renewals and other property management actions, as the database can flag important dates for asset management staff.

represents a very long list of addresses, parcel size, building square-footage, and a summary of how much property the state owns and leases. Departments that furnish information for the inventory complain that the inventory is operationally unwieldy, difficult to search and opaque in terms of details that allow them to determine the usefulness of a given property for their needs.[32]

Though the SPI lists 2,920 real properties and 2,306 buildings, it by no means describes the universe of state holdings; it is not clear what percentage of the total the SPI represents. A large portion of the state's property holdings – specifically all of the state's freeway and other transportation holdings operated by Caltrans – is not included in the inventory. The SPI, however, does include Caltrans' 4 million square feet of office space and some 2,000 acres of land.

As a result, the state lacks the ability to see in one place what assets it has, where they are located, what purpose they serve, and what opportunities might exist to leverage the value of the asset up to and including selling it.

DGS, when departments fail to report property information, has no authority to enforce the law, and it also does not call out non-compliant departments and agencies. No one has audited the SPI to determine whether it is a complete and accurate list of state property.[33]

In California and elsewhere, there appears to be an inverse relationship between the amount of property assets a government holds and the visibility to the public of those assets and the amount of information available to various government officials about these same assets. It is difficult to say whether the dearth of publicly available information about public property assets has resulted in a lack of public demand for government to do a better job of managing public assets. In California, as in many other countries, land and property holdings are not reflected in state financial documents, even though they may constitute a significant asset for the state, and financial market credit analysts ignore these assets in determining a state's creditworthiness.[34]

State Fair Lands in Local Hands

The decision to end funding for district agricultural associations as of January 1, 2012, has raised the question of how the state can ensure that state-funded fairs, using state-owned land, are operating well and using the state property wisely. Without the state funding and a state-level staff, the state's continuing oversight role is in question, leaving the local associations on their own to manage and use these 41 state properties. This arrangement leaves the state with a potentially large liability, particularly if a financially troubled district agricultural association ceases to exist.

The Commission learned during the study that selling these fair parcels is a complicated proposition, as many fairgrounds are made up of several parcels, some donated, often with conditions for use attached to future potential transfers, or conditions that require the property to revert back to the donor's estate on sale. Fair association officials told the Commission that title searches are onerous and expensive, and worthwhile only if a legitimate proposal is in the offing. The Commission was urged to consider other ways for fair associations to fashion deals with local governments that could lead to new uses for unused or underused fairgrounds, including commercial development, which would benefit local jurisdictions.

Questions also exist about the legal status of the district agricultural associations and whether the associations, or the state, would receive the proceeds of any sale, and whether the associations would have to approve any sale.

In some counties, fairs and other activities that make use of fairgrounds during the off-season represent a significant contribution to local economies. Fair supporters make the case that these economic benefits outweigh any cost to the state to keep these lands under state control. Some fair districts have been enterprising with their state-owned land, highlighting the potential alternative of entering into long-term leases on a part of the fairground property in order to generate revenue from unused portions. The Madera District Agricultural Association, for example, in recent years identified underutilized land on its state-owned property and, with help from the Real Estate Services Division at DGS, negotiated a long-term lease to the Lowe's home improvement store chain for a portion of the property. Under existing law, an association with state-owned property has the authority to keep the revenue generated from the long-term lease. In contrast to state departments and agencies, Madera had the incentive to think strategically about its land needs and look for options to diversify its revenues.

The wide variety of issues and opportunities for state fairgrounds resists a one-size-fits-all solution. The potential transition of fair association management, however, forces the state to rethink whether it should continue to own these lands. The state should authorize alternative ownership arrangements, including joint powers authorities made up of district agricultural associations and local governments, that keep the property under public ownership but allow more local control to the benefit of the fair and local economy.

New Approach to Property Management Overdue

The state's approach to property management has changed little since the Commission's 1995 study, while the need for a new approach has never been more acute. The world has changed considerably in the years since, driven in no small way by advances in technology that have revolutionized the way people work – in ways state government has yet to fully employ. Largely in reaction to the state's chronic fiscal crises, state government too is changing. The state's workforce is shrinking, reducing its need for office space, whether leased or owned.

Governor Brown's effort to realign government programs closer to the people who use these programs' services has shifted responsibility away from Sacramento and to local government, reducing the number of state employees working in parole, mental health, foster care and substance abuse programs.

To the extent that it has been able to, the Department of General Services' Real Estate Services Division has been enterprising, but on a very small scale, limited both by a lack of authority and lack of a broader statewide strategy. Taking advantage of the depressed commercial real estate market, the department has been proactive in renegotiating leases at lower rates in privately owned buildings and looking for ways to consolidate state operations into vacant state-owned office space. The department, and its state clients, also have benefitted by hiring Real Estate Services Division staff with considerable commercial real estate experience. The department's pilot efforts to work with private real estate firms to take advantage of spot market opportunities have benefited the state, but again, only on a small scale.

The evolving role of state government, combined with the imperative to make the most of taxpayer dollars, requires an aggressive and rigorous statewide approach to managing state property assets, whether office space, urban land set aside for abandoned projects or property leased to private enterprises such as solar farms or mining.

Single State Entity

California needs a single state entity that can identify, inventory, assess and manage the state's real property assets, and has the flexibility and authority to sell surplus property when appropriate. The mission of the entity should be to ensure that state assets are managed to their highest programmatic potential and help the state make land-use decisions to drive better program outcomes. The organizing principle of what the entity should manage should be based on the properties that generate costs to the state, through operating or financing costs, and properties that have the potential to generate ongoing revenues for the state.

Suggested Process Changes for Department of General Services Real Estate Services Division

The Commission asked current and former managers of the Department of General Service's Real Estate Services Division for ways to improve how developed property is used, shared, leased, managed, or sold. Here are their insights on how the state can improve operations as policy-makers prepare for broader governance changes:

- Accelerated funding process: Establish a funding source and a more expedited process to fund tenant improvements in state office buildings so that available vacant space can be put to use more quickly by a new state tenant. The current capital outlay process is cumbersome and requires incoming tenants to have up-front money to design and make tenant improvements to meet their specific needs. The current state process is both slower and less flexible than a private sector lease where tenant improvements can be amortized over the life of the lease.
- Alternative project delivery methods: Provide DGS with alternative delivery methods and authority similar to that authorized for the University of California (UC), such as design-build contracts and job order contracting to reduce costs and improve project delivery. UC's current authority was established in 1992 by provisions of Public Contract Code Section 10503, which authorized the Regents of the University of California to use these additional construction procurement processes to build any university structure, building, road or other improvement. The Trustees of the California State University System are also authorized to use design-build and job order contracting, as provided in Public Contract Code Section 10708 and 10710.
- Identify high-value properties: Continue monitoring the state's property portfolio to identify program reductions and facility closures that free up high-value properties for resale or reuse by another state agency.
- Additional property uses: Continue identifying underutilized state property that can be used for on-site energy generation projects.
- Expedited surplus sales process: The state should establish an expedited process for authorizing the sale of surplus state properties. This could reduce the holding costs associated with maintaining the security of surplus property, maintaining the value of the asset through warm shut-downs, and eliminating the uncertainty of the current surplus process which requires legislation that can extend the sales process.
- Agency incentives: Create incentives for agencies to identify and support the sale of surplus state property consistent with Proposition 60A, or develop long-term ground leases that can provide an income stream in which the agency can share. DGS, in cooperation with the Department of Developmental Services, through a long-term ground lease with a private developer, will develop an affordable housing project on 10 acres of surplus property located at the Fairview Developmental Center in Costa Mesa. The project will provide 240 units of affordable housing enabling Costa Mesa to meet its affordable housing goals and will provide much needed housing for developmentally disabled individuals. Net revenues generated by the long-term ground lease will be deposited into the General Fund. AB X4 22 added Government Code Section 11011.2, which authorizes the director of DGS to identify underutilized state real estate assets and to offer the property for long-term lease in order to generate revenue for the General Fund. DGS is proceeding with the first project under this authorization with the long-term ground lease of 150 acres at the California Institution for Men – Chino. DGS will look to identify additional underutilized properties that represent feasible development opportunities that can generate new revenues for the General Fund.

In some cases, that may mean leasing private office space or finding ways for different agencies to develop facilities for shared use, following the example of the Department of Motor Vehicles and the California Highway Patrol, which sometimes co-locate field offices. It may simply be making information easily available to the public about protecting land or waterways just as they are to serve the state's conservation and preservation missions. In some cases it will mean identifying surplus state property that can be leased or sold.

Carrying out this mission will require nimbleness and flexibility as well as a more market-oriented approach, much like that of California Independent System Operator, which manages the state's electricity grid. A state asset management entity should be given the same operational independence that the CAISO has, including the ability to enter into contracts on its own and hire staff as its needs dictate rather than through the cumbersome civil service structure to create job classifications that may not exist.

Operational Flexibility

Ideally, this entity should be able to partner with private real estate management firms, where doing so benefits the state, to develop its own capacity for asset management. This should include taking advantage of modern information technology systems, including geographic information mapping systems, to better inventory and assess the state's holdings. Where opportunities exist, this entity should be able to create public-private partnerships to develop facilities that serve state program needs and make more intensive use of state real estate.

A central goal should be to provide high quality office space to state departments and to lease state property at rates competitive with comparable privately owned properties. Achieving this goal requires the entity to be able to maintain and upgrade state-owned office space, build new office space when needs demand and to continuously monitor rates and vacancies in local property markets, all of which will require the entity to have both adequate funding and the flexibility and autonomy to use its resources efficiently.

This mission fundamentally goes beyond the capacity and authority of the Department of General Services' Real Estate Services Division. In this review, the Commission heard many of the complaints from other departments that the Urban Land Institute panel described in its 1994 report for DGS as "good people hobbled by a poor system," where real estate is an end unto itself rather than a service to help departments deliver public services.[35] Now as then, the department struggles to reconcile its service function with its broader control function. This reinforces the need to separate the real estate services function from its parent department.

In its 1995 report, *California's Real Property Management: A Cornerstone for Structural Reform*, the Commission found that the state's major property management problems would be difficult, if not impossible, to resolve without significant organizational restructuring.

The Commission previously has recommended the state unify its management of developed property into a new independent, yet accountable organization. In its 1995 report, the Commission recommended moving real estate services out of DGS. The recommendation for the creation of an independent entity empowered to track the state's various property holdings has been echoed by the State

Lessons of Other Models

State governments in the United States have taken a variety of approaches to oversee their property management functions. Though no one model predominates, most large states have taken a statewide approach to fundamental task of inventorying public holdings.

The Commission in its 1995 report looked further afield to find more entrepreneurial models that combined public and private expertise, specifically the British Columbia Buildings Corporation, a public benefit crown corporation, which since has been folded back into the British Columbia provincial government as Shared Services BC.

Similar approaches have been used in Australia and its provinces, the United Kingdom and New Zealand. In these examples, the governments separated the function of policy oversight and development from the function of providing governmental building services, eliminating the conflicts inherent in regulating a customer. Each introduced competition as a mechanism for improving service, allowing customer departments and agencies the freedom to choose between a government agency and the private sector firm to provide building services, such as maintenance and alterations. [1]

The British Columbia Buildings Corporation, formed in 1977, had a portfolio of 3,500 buildings, about half of which were leased. It took ownership of all of the province's office space. The publicly owned corporation, created to replace a failed bureaucracy, was totally dependent on revenue it generated from fees and services, returning money to the treasury. One of the benefits of the corporation model was separating politics from the business of providing office and other real estate services to not only the provincial government, but to other local governments as well – at rates below the market. It relied on the government to establish public policy for property decisions about property management, and specific policies for large or controversial projects, but then was free to use the tools of the business world to comply with those policies.

In 2005, however, the British Columbia government decided to move back to a ministry model, and reintegrated the corporation's activities into a new organization, Shared Services BC, as the Integrated Workplace Solutions unit. The unit continues to use performance management contracts with private providers and consultants, though its professional and strategic advisory functions are performed by in-house professionals.

Sources: Little Hoover Commission. December 1995. "California's Real Property Management: A Cornerstone for Structural Reform." Also, British Columbia Ministry of Labour, Citizens' Services and Open Government. June 22, 2012. Personal communication. Also, General Accounting Office. 1994. "Real Property Management: Reforms in Four Countries Promote Competition." Report to the Chairman, Subcommittee on Water Resources, Transportation, Public Buildings and Economic Development, Senate Committee on Environment and Public Works, Washington, D.C. Also, General Accounting Office. 1994. "Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery." Briefing Report to Congressional requesters, Washington, D.C.

Auditor and the California Performance Review, which in 2004 reiterated the Commission's view that an asset management entity have the authority to declare assets surplus and be given the flexibility to hire consultants to study the state's holdings and sell surplus property.

Use Reorganization Tools

The Governor, through a reorganization plan, should establish an entity separate from the Department of General Services to manage the state's office space, as well as leases for private office space, and provide other real estate services for client departments to help them make better use of their developed property. This new entity, the Department of Asset Management, should be placed within the new Government Operations Agency.

The state can take important steps in the short term that will both improve accountability and transparency and start the process of moving

An Expert's View

Olga Kaganova, a senior fellow at the Urban Institute and an expert on government asset management, described for the Commission how other countries designed and implemented comprehensive asset management reform. Often the modernization was part of broader reforms to improve overall government financial management. They adopted and adapted private sector approaches to asset management that included incentives as a key instrument.

The governments that took on comprehensive modernization of asset management adopted a long-term strategic approach and typically made use of:

- Asset Management Strategy.
- Strategic asset planning and multi-year capital investment planning, including life-cycle costing.
- Outsourcing of various property-related services, whether management of the entire portfolio of federal properties as in Australia, or outsourcing various property management functions.
- Using performance-based contracts.
- Creating special purpose corporations for managing assets, such as the British Columbia Building Corporation.
- Increasing use of public-private partnerships to build infrastructure as well as for service delivery.

In formulating any plan to modernize asset management, a key initial step is developing policy principles to guide the next steps, Ms. Kaganova said. As part of a 1990s overhaul of Canada's government, Canada's Treasury Board approved the following policy principle:

It is the policy of the government to acquire, manage, and retain real property only to support the delivery of government programs and in a manner that is consistent with the principles of sustainable development. Within this context, real property must be managed to the maximum long-term economic advantage of the government, to honour environmental objectives, to provide adequate facilities for users, and to respect other relevant government policies.

Sources: Olga Kaganova, Senior Fellow, Center on International Development and Governance, The Urban Institute. January 24, 2012. "Managing Government Capital Assets in the State of California: What Can Be Learned from Other Governments?" Written testimony to the Little Hoover Commission. Also, Olga Kaganova and James McKellar. 2006. "Managing Government Property Assets: International Experiences." The Urban Institute Press. Washington, D.C.

to a new governance structure for property management. The Legislature, through the Joint Legislative Audit Committee, should ask the State Auditor to start this process with an audit of all state property holdings across state government. This audit should be used as the foundation of an updated and expanded Statewide Property Inventory. This inventory must be designed to be transparent and easily useable not only by other state departments, but by the public as well. The Department of Asset Management should have the responsibility for housing and maintaining the inventory and the authority to require other departments to regularly update it.

The state should take advantage of the State Auditor's previous experience in this area by asking the State Auditor to also audit the property management practices of departments that manage their own office space real estate to determine current space utilization and vacancy rates, internal rent charges and maintenance practices. For departments that lease property to outside entities, the audit should determine how rents are determined and how they track local market rates, how they are adjusted and the department's practices for collecting late rents.

While the inventory can and should include all state property, including lands held in trust for conservation purposes, the main focus of the Department of Asset Management should be on developed property – office buildings, maintenance yards and other parcels used for department operations. The department also should be responsible for managing high-value state lands that are leased for oil, gas and mineral extraction and geothermal energy production.

Planning, construction, leasing and maintenance services should be unified under the new department to allow the department to make more coordinated decisions about how to meet space needs of customer departments, how to manage existing structures and how to blend technology, space design and management techniques to reduce space needs.

Strong Leadership Informed By Expert Advisors

The Governor should appoint a leadership team that has experience both in government as well as private sector property management to develop a statewide property management policy and a strategic plan for executing it. This policy development process should include equipping the new department with the proper authority to carry out its mission, including flexibility in hiring consultants and exempt managers and adequate funding flexibility, including the ability to retain revenues, to enable the department to maintain and modify state buildings to both make them attractive options to private office space and to ease space consolidation. The department also should be given the authority to determine whether property is surplus and whether the state would benefit from the property's sale. As part of this, the Legislature should eliminate statutory confusion over the categories of "excess" property and "surplus" property.

The department should develop a disposition list of surplus property annually and provide this list to the Legislature, which should have 90 days to vote to remove properties from the list. If the Legislature takes no action within 90 days, the department should automatically be authorized to sell the property.

In cases where the state is leasing property to non-state entities, the department should have the authority to bring action against lessees that are delinquent in rent, including the authority to contract with collection agencies or initiate eviction proceedings.

Property management functions located in different departments should be consolidated into the new department in phases, as the department staff builds expertise and organizational capacity.

This process should be informed by an advisory group of experienced private sector property management professionals, who serving as volunteers, can provide guidance and counsel on how to integrate industry best practices, including modern property management technology systems, into the new department's operations.

As part of the reorganization, the Mineral Resources Management Division from the State Lands Commission, as well as the properties and leases for which it is responsible, should be moved to the Department of Asset Management. The new department should retain and refine the functions of this division as well as the functions of the Real Estate Services Division. The branches of the Real Estate Services Division, however, were organized by the accretion of responsibilities over time, rather than by function. The department's leadership should take the opportunity to reorganize these functions for greater efficiency, consolidating the existing branches according to industry best practices, based on the input of the department's expert advisory group.

Once the department has demonstrated the capacity to take on more responsibility, the state should begin to move more of the state property holdings under its control, focusing first on office space held by other departments, so that the state can standardize maintenance and operating practices, take the lead in renovating existing space for new needs and optimize space use through consolidation into state-owned properties with the goal of reducing reliance on privately leased office space.

As part of its role as custodian of the State Property Inventory, the new department should be able to monitor state departments' space needs and vacancies. The new department also should have the both the authority to review and approve space requests from departments, and to require departments seeking additional space to use vacant state-owned office space when practical and where doing so does not present an impediment to the department's operations.

Self-Supporting, Competitive

Ultimately, the department should be run as a self-supporting property management entity with the ability to enjoy as many of the advantages and business practices its private sector counterparts as possible. This should include the use of business software that monitors lease terms and rent payments, so that action is taken automatically on late payments and lease terms can be negotiated well ahead of expirations. In the cases of leased oil, gas, and mineral holdings, the department should be equipped to monitor commodity prices to be able to accurately price rents, and have the resources and hiring flexibility to bring in experts to negotiate leases that best serve the public interest.

The department should be expected to charge competitive rates to state departments to provide services to them that are comparable services to private property managers. It should be able to use revenues from department rents to reinvest in state properties and, where required, pay-down lease-revenue bonds used to finance state construction. One-time proceeds from sales of surplus property should be applied to General Obligation debt reduction or to capital projects. After accounting for the department's administrative costs, continuing revenue streams from oil, gas, mining and geothermal operations should go to the General Fund.

California's approach to managing its vast real estate holdings has been obsolete for decades. In the past, the state, struggling with chronic shortfalls, repeatedly has looked to the state's holdings for surplus properties that could be sold to patch budget gaps. Such efforts should be a part of a broader strategy of asset management, one that can maximize value of the state's property holdings not on an episodic basis, but through an ongoing process of identifying, inventorying, assessing and managing California's real property assets with the goal of helping client agencies improve program outcomes.

By modernizing its real property asset management, California can make better use of the property it holds, enhance state government's ability to deliver services to Californians, and provide transparency and accountability to California's taxpayers. California's leaders have successful models from which they can learn, and adapt to specific needs of the state's changing government structure.

The creation of a Department of Asset Management, guided by a statewide policy on property management developed with the assistance of knowledgeable industry experts, presents a tremendous opportunity. Capitalizing on this opportunity will require substantial change to the status quo. This makes it essential that the Governor appoints experienced leadership with excellent communications skills to build the necessary cooperation to make this ambitious reorganization successful.

Recommendation 1: The Legislature should request that the State Auditor conduct an audit of all state properties held by California state government departments, boards and commissions. The results should be used to update and enhance the Statewide Property Inventory.

- The audit should determine how much property the state holds by department and detail how the property is used. The audit also should detail how much property each department leases from private landholders.
- The audit should describe the current property management and leasing procedures and policies of departments that control state office space and other developed property for their operations. The audit should detail vacancy rates, space utilizations and rent, as well as comparable private property rents. For departments or government entities that lease or rent state property to non-governmental entities, the audit also should describe how lease payments and contracts are monitored for timeliness, and how rates are adjusted to comparable market rates, as well as vacancy rates and space utilization of leased property.

Recommendation 2: The Governor, through the reorganization process, should create a Department of Asset Management within the Government Operations Agency, separate from the Department of General Services, to serve as the central state authority for managing California's real property assets, drive innovation to maximize state property assets and provide accountability to the public.

- The new department should be the repository of the Statewide Property Inventory and should be provided the resources to make the inventory a foundational tool of the state's property management strategy. The inventory must have an online interface designed to facilitate accessibility and ease of use for the public.

- The Governor should start the process of consolidating property management functions in state departments into the new department, ultimately bringing all state property management functions under the new department's control.
- The Governor should form a board of advisors made up of experts from California's top private sector property management firms that can help the state integrate up-to-date business practices and systems into the state's property management operations. The board should sunset after a fixed term. Members should serve as volunteers.
- The board of advisors should meet quarterly to review the department's business plan and ensure that the department is adopting and following best industry practices.
- Current Real Estate Services Division staff and functions should be moved into the new Department of Asset Management from the Department of General Services. Based on guidance from the board of advisors, the division should be functionally reorganized to align with best industry practices.
- The department should be the lead on identifying and disposing of surplus state property. Each year, the department should submit a disposition list of surplus property to the Legislature and sales should go forward unless the Legislature acts to stop them within 90 days of receiving the list.
- Proceeds from one-time sales should be applied to debt reduction or other one-time outlays.
- The Legislature should develop clean-up legislation that clarifies the distinction between "excess" and "surplus" property.
- The department should have the authority to reinvest rental income from state departments into repaying lease-revenue bonds as required, maintenance, or renovation to accommodate new needs or new state tenants.
- The department should have the flexibility to hire exempt employees to train and build management capacity and expertise, particularly in enterprise areas such as high-value leases.
- Once the department has management expertise in place, the administration and management of high-value oil, gas and mineral leases should transferred from the State Lands Commission to the Department of Asset Management.

- The new department should lead the effort to develop a comprehensive asset management policy, as recommended below.
- The new department should annually publish a report that explains how the department has enhanced asset management in the state, with specific performance measurements such as the revenue generated from state assets, office space cost per employee, average square-foot of space per employee, total buildings sold and consolidation of office space use by departments.

Recommendation 3: California should create a clear asset management policy to guide property-related decisions by the Department of Asset Management and across state departments.

- The Department of Asset Management should serve as the central forum for drafting a comprehensive asset management policy for California, seeking input from others, including all asset-controlling departments, private-sector partners, the Department of Finance and other interested persons.
- Asset management policies should be codified in legislation to ensure permanence and enforceability.

Recommendation 4: The Legislature should enact legislation that provides more flexibility to district agricultural associations to pursue strategies that support and sustain the mission of local fairs.

- The legislation should enable the state to transfer state-owned fairground property to a joint powers authority, whose membership includes the district agricultural association and local governments, established to keep the property in public hands and expand options for communities that support the association's missions and local economies.

Appendices & Notes

- ✓ ***Public Hearing Witnesses***
- ✓ ***Little Hoover Commission Public Meetings***
- ✓ ***Government of Canada Asset Management Policy***
- ✓ ***Property Ownership Among California Fairs***
- ✓ ***Notes***

Appendix A

Public Hearing Witnesses

Public Hearing on State Property Management
October 25, 2011

James Derby, Assistant Deputy Director, Real Estate Services Division, Department of General Services

Curtis Fossum, Executive Officer, California State Lands Commission

Elaine Howle, California State Auditor

Robert McKinnon, Assistant Chief, Asset Enhancement and Surplus Sales, Asset Management Branch, Real Estate Services Division, Department of General Services

Joe Mugartegui, Chief, Asset Management Branch, Real Estate Services Division, Department of General Services

Public Hearing on State Property Management
January 24, 2012

Rebecca Desmond, Director, Division of Fairgrounds and Expositions, Department of Food and Agriculture

Scott Gregory, Geographic Information Officer, California Technology Agency

Olga Kaganova, Senior Fellow, Center on International Development and Governance, The Urban Institute

John Salmon, Owner, Upstream Investments, LLC

Peter Stamison, former Director, Department of General Services, and former Administrator, Pacific Rim Region, U.S. General Services Administration

Appendix B

Little Hoover Commission Public Meetings

California State Property Management Advisory Committee Meeting – January 23, 2012
Sacramento, California

Dave Brown, Chief, Administrative and Information Services, State Lands Commission

Brian Bugsch, Chief, Land Management Division, State Lands Commission

Helen Carriker, Deputy Director, Administration, Department of Fish and Game

Fred Cordano, Associate Director, Facility Operations Branch, Department of Corrections and Rehabilitation

John Donnelly, Executive Director, Wildlife Conservation Board

Brent Green, Chief, Division of Right of Way and Land Surveys, Department of Transportation

John Hansen, Chief, Facilities Operations, Department of Motor Vehicles

Olga Kaganova, Senior Fellow, Center on International Development and Governance, The Urban Institute

Curt Karlin, Chief, Technical Services, Department of Forestry and Fire Protection

Erik Knudsen, Chief, Administrative Services Division, California Highway Patrol

Allen Meacham, Assistant Director-Endowment Real Estate, University of California Office of the President

Suzette Musetti, Chief, Office of Real Property Services, Division of Right of Way and Land Surveys, Department of Transportation

Patrick Rogers, Senior Land Agent, Acquisitions and Development, Department of State Parks and Recreation

Patti Samuel, Acting Chief, Human Resources and Support Services, Department of Developmental Services

Sandy Triphan, Senior Land Agent, Acquisitions and Development, Department of State Parks and Recreation

Tom White, Asset Manager, Office of Real Property Services, Division of Right of Way and Land Surveys, Department of Transportation

Dan Yparraguirre, Deputy Director, Wildlife and Fisheries Division, Department of Fish and Game

California State Property Management Advisory Committee Meeting – March 20, 2012
Sacramento, California

Stephen Chambers, Executive Director, Western Fairs Association

Frank Davidson

Rebecca Desmond, Director, Division of Fairs and Expositions, Department of Food and Agriculture

Lisa Drury, Special Assistant, Division of Fairs and Expositions, Department of Food and Agriculture

Nancy Farias, Legislative Director, Service Employees International Union Local 1000

Nick Konovaloff, Legislative Analyst, Regional Council of Rural Counties

Reggie Mundekis, Orange County Fair Preservation Society

Kasey O'Connor, Legislative Aide, Office of Assemblymember Fiona Ma

Theresa Sears, Orange County Fair Preservation Society

Deanna Spehn, Policy Director, Office of Senator Christine Kehoe

Carly Stockman, Legislative Assistant, Kahn, Soares & Conway LLP

Jeff Teller, President, Orange County Marketplace

Appendix C

Government of Canada Asset Management Policy

As part of a broader modernization of asset management in Canada, government officials in 2006 adopted a Policy Framework for the Management of Assets and Acquired Services, which outlines the direction, standards and principles to effectively manage assets across departments. The policy framework is designed to promote sound stewardship by optimizing the use of resources through efficient and effective management practices.

Under the policy, asset management decisions must:

- Be consistent with governmental priorities and departmental mandates, enable program outcomes, address critical risks, and comply with legislation, regulations and policies.
- Demonstrate public service values and ethics, rigorously assess health and safety, actively promote environmental stewardship, contribute to broader government objectives and ensure access, service quality, privacy and security.
- Encourage innovation by considering the full range of options available to best meet program needs.
- Be informed by financial and non-financial performance measures and results.
- Be fair, transparent and accessible to serve the Legislature's appropriation and oversight role and the executive branch's management role.

Value-for-money and sound stewardship in asset management are achieved through:

- Strategic and integrated decision-making and management processes at government-wide, horizontal, portfolio, departmental and program levels to optimize the use of assets and services.
- A risk-based and complexity-based approach to processes, systems, capacity, resourcing, oversight and reporting to promote the attainment of program outcomes.
- A life-cycle management approach reflecting direct and indirect costs of assets and services, to ensure affordability, cost effectiveness and performance.
- Consideration of asset performance and utilization in retention and disposal decisions made in support of program delivery.
- Delegation of authority based on need, capacity and on an effective regime of accountabilities and responsibilities.
- Efficient and effective business processes.
- Management systems, processes and information that provide the basis for managing performance and for assigning costs to support effective fact-based decision-making, budgeting and reporting; re-allocation in response to changing priorities; risk-based oversight and monitoring and demonstrated compliance with legislation, regulations and policy.

The policy framework also has a monitoring, reporting and performance assessment component. Performance indicators, reporting requirements and compliance mechanisms serve to gauge a department's level of performance. Those serving in leadership roles are responsible for ensuring that the results of the findings are examined, reviewed and acted upon, and departmental performance can lead to increased budget allocations.

The Canadian Treasury Board (California Department of Finance equivalent) is responsible for establishing a government-wide system of management and control for federal assets and acquired services. A key element of the Treasury Board's role is the review and approval of departmental investment plans, including assessment of the performance and cost of assets and acquired services. The Board provides appropriate policies, directives, tools and guidance necessary to support the policy framework, along with sharing information and fostering best practices. The Board also ensures deputy heads take appropriate remedial measures to improve their asset management practices and controls.

Canadian government deputy heads (department directors) are accountable for the management of assets and acquired services in their respective departments. They are responsible for implementing an effective management framework – including departmental procedures, processes and systems – that demonstrate how well the department is performing based on policy framework principles. They also must have management practices and controls in place within their department and must act quickly when deficiencies are identified.

Source: Policy Framework for the Management of Assets and Acquired Services. Government of Canada. http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12022. Web site accessed on February 8, 2012.

Appendix D

Property Ownership Among California Fairs

District Agricultural Association Fairs	
Fairs on state-owned DAA fairground properties (41)	
1-A DAA, Cow Palace, Daly City	28th DAA, San Bernardino County Fair, Victorville
2nd DAA San Joaquin County Fair, Stockton	29th DAA, Mother Lode Fair, Sonora
3rd DAA, Silver Dollar Fair, Chico	31st DAA, Seaside Park, Ventura
7th DAA, Monterey County Fair, Monterey	32nd DAA, Orange County Fair, Costa Mesa
9th DAA, Redwood Acres Fair, Eureka	33rd DAA, San Benito County Fair, Tres Pinos
10-A DAA, Tulelake-Butte Valley Fair, Tulelake	35th DAA, Merced County Fair, Merced
12th DAA, Redwood Empire Fair, Ukiah	35-A DAA, Mariposa County Fair, Mariposa
13th DAA, Yuba-Sutter Fair, Yuba City	36th DAA, Dixon May Fair, Dixon
14th DAA, Santa Cruz County Fair, Watsonville	37th DAA, Santa Maria Fairpark, Santa Maria
16th DAA, Mid-State Fair, Paso Robles	38th DAA, Stanislaus County Fair, Turlock
17th DAA, Nevada County Fair, Grass Valley	39th DAA, Calaveras County Fair, Angels Camp
19th DAA, Earl Warren Showgrounds, Santa Barbara	40th DAA, Yolo County Fair, Woodland
20th DAA, Gold Country Fair, Auburn	41st DAA, Del Norte County Fair, Crescent City
21-A DAA, Madera District Fair, Madera	42nd DAA, Glenn County Fair, Orland
22nd DAA San Diego County Fair, Del Mar	44th DAA, Colusa County Fair, Colusa
23rd DAA, Contra Costa County Fair, Antioch	46th DAA, Southern California Fair, Perris
24th DAA, Tulare County Fair, Tulare	49th DAA, Lake County Fair, Lakeport
24-A, Kings Fair, Hanford	50th DAA, Antelope Valley Fair, Lancaster
25th DAA, Napa Valley Expo, Napa	53rd DAA, Desert Empire Fair, Ridgecrest
26th DAA, Amador County Fair, Plymouth	54th DAA, Colorado River Fair, Blythe
27th DAA, Shasta District Fair, Anderson	
DAA fairs on leased, non-state properties (8)	
4th DAA, Sonoma-Marin Fair, Petaluma Lease with City of Petaluma	21st DAA, Big Fresno Fair, Fresno Lease with Fresno County
10th DAA, Siskiyou Golden Fair, Yreka Lease with Siskiyou County	30th DAA, Tehama District Fair, Red Bluff Lease with Tehama County
15th DAA Kern County Fair, Bakersfield (Leased) Lease with Kern County	34th DAA, Modoc District Fair, Cedarville Lease with Modoc County
18th DAA, Eastern Sierra Tri-County Fair, Bishop Lease with Los Angeles Water and Power	45th DAA, Imperial Valley Expo, Imperial Lease with Imperial County
DAA fairs without permanent sites (3)	
48th DAA, Schools Involvement Fair, Walnut Rents space at Los Angeles County Fair for annual fair	52nd DAA, Sacramento County Fair, Sacramento Rents space at CalExpo for annual fair
51st DAA, San Fernando Valley Fair, Van Nuys Rents facility for annual fair	
State Fair (1)	
California Exposition & State Fair, Sacramento	
County Fairs, on county land (22)	
Alameda County Fair	Merced County Spring Fair, Los Banos
Butte County Fair, Gridley	Napa County Fair, Calistoga
Chowchilla-Madera County Fair, Chowchilla (Madera County)	Placer County Fair, Roseville
El Dorado County Fair, Placerville	Plumas-Sierra County Fair, Quincy (Plumas County)
Humboldt County Fair, Ferndale	Riverside County Fair, Indio
Inter-Mountain Fair of Shasta County, McArthur (Shasta County)	Salinas Valley Fair, King City (Monterey County)
Lassen County Fair, Susanville	San Mateo County Count Fair, San Mateo
Lodi Grape Festival, Lodi (San Joaquin County)	Santa Clara County Fair, San Jose
Los Angeles County Fair, Pomona	Solano County Fair, Vallejo
Marin County Fair, San Rafael	Sonoma County Fair, Santa Rosa
Mendocino County Fair, Boonville	Trinity County Fair, Hayfork
Citrus Fruit Fairs (2)	
Cloverdale Citrus Fair, Cloverdale 501(c)(3) non-profit corporation	National Orange Show, San Bernardino 501(c)(3) non-profit corporation
Total Fairs: 77	

Source: Division of Fairgrounds and Expositions. August 9, 2011. Fair Property Inventory.

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19. Curtis Fossum, Executive Officer, California State Lands Commission. September 15, 2011. Personal communication. Sacramento, CA.

20. Paul Thayer, former Executive Officer, California State Lands Commission. September 14, 2011. Personal interview. Sacramento, CA.

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23. Bureau of State Audits. August 23, 2011. "State Lands Commission." Fact Sheet.

24. Suzette M. Musetti, Chief, Office of Real Property Services, Division of Right of Way and Land Surveys, California Department of Transportation. November 21, 2012. Personal communication.

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35. Urban Land Institute. 1995. "California State Capitol Area, Sacramento, California: An Evaluation of the State of California's Plans, Policies, and Processes for Procuring and Managing Office Space."

Little Hoover Commission Members

Chairman Daniel W. Hancock *(D-San Ramon)* Appointed to the Commission by Assembly Speaker Cruz Bustamante in July 1997. Reappointed by Assembly Speaker Robert M. Hertzberg in January 2001, by Speaker Fabian Núñez in March 2006 and by Speaker Karen Bass in January 2009. Former president of Shapell Industries of Northern California. Chairman of the Commission since March 2007.

Vice Chairman David A. Schwarz *(R-Beverly Hills)* Appointed to the Commission by Governor Arnold Schwarzenegger in October 2007 and reappointed by Governor Schwarzenegger in December 2010. Partner in the Los Angeles office of Irell & Manella LLP and a member of the firm's litigation workgroup. Former U.S. delegate to the United Nations Human Rights Commission.

Assemblymember Katcho Achadjian (R-San Luis Obispo) Appointed to the Commission by Speaker of the Assembly John Pérez in July 2011. Elected in to the 33rd Assembly District, in November 2010. Serves as vice chairman of the Assembly Committee on Banking and Finance.

Virginia Ellis *(D-Sacramento)* Appointed to the Commission by the Senate Rules Committee in January 2011. Former Sacramento bureau chief for the Los Angeles Times.

Jack Flanigan *(R-Granite Bay)* Appointed to the Commission by Governor Edmund G. Brown, Jr. in April 2012. A member of the Flanigan Law Firm. Co-founded California Strategies, a public affairs consulting firm, in 1997.

Assemblymember Alyson Huber *(D-El Dorado Hills)* Appointed to the Commission by Assembly Speaker John Pérez in March 2010. Elected to the 10th Assembly District in 2008 to represent all of Amador County and portions of Sacramento, El Dorado and San Joaquin counties.

Loren Kaye *(R-Sacramento)* Appointed to the Commission by Governor Arnold Schwarzenegger in March 2006 and reappointed by Governor Schwarzenegger in December 2010. President of the California Foundation for Commerce and Education. Former partner at KP Public Affairs. Served in senior policy positions for Governors Pete Wilson and George Deukmejian, including cabinet secretary to the Governor and undersecretary for the California Trade and Commerce Agency.

Tom Quinn *(D-Marina del Rey)* Appointed to the Commission by Governor Edmund G. Brown, Jr. in February 2012. Currently chairman and CEO of City News Services Inc., managing partner of Sierra Investments, president of Americom Broadcasting and chairman of Reno Media Group.

Senator Michael J. Rubio *(D-East Bakersfield)* Appointed to the Commission by the Senate Rules Committee in February 2011. Elected to the 16th Senate District in November 2010.

Jonathan Shapiro *(D-Beverly Hills)* Appointed to the Commission by the Senate Rules Committee in April 2010. Writer and producer for NBC, HBO and Warner Brothers. Former chief of staff to Lt. Governor Cruz Bustamante, counsel for the law firm of O'Melveny & Myers, federal prosecutor for the U.S. Department of Justice Criminal Division in Washington, D.C., and the Central District of California.

Mark Vargas *(D-Los Angeles)* Appointed to the Commission by Speaker of the Assembly John Pérez in February 2012. Currently president of Mission Infrastructure. Currently a member of the boards of the California YMCA Youth & Government Model Legislature and Court, Inland Action and Grand Performances.

Senator Mark Wyland *(R-Escondido)* Appointed to the Commission by the Senate Rules Committee in February 2011. Elected to the 38th Senate District in 2006 and re-elected in November 2010.

Full biographies available from the Commission's website at www.lhc.ca.gov.

“Democracy itself is a process of change, and satisfaction and complacency are enemies of good government.”

Governor Edmund G. “Pat” Brown,
addressing the inaugural meeting of the Little Hoover Commission,
April 24, 1962, Sacramento, California