Managing Government Capital Assets in the State of California: What Can Be Learned from Other Governments?

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Introduction

The premise of this testimony is that for modern democratic societies principles of good management of government assets are relatively universal, and therefore the State of California can benefit from learning how other governments have modernized their asset management and have coped with asset-related challenges during fiscal crises. Given the scale of the Californian economy and population, main countries of interest and comparison are Canada and its sub-national governments, Australia, the UK, and some selected government agencies in the US.

This testimony is informed by a review of various documents relevant to the task[1] and by monitoring asset management policies and good practices in various countries.

Why government assets are important

There are at least four major reasons why state assets require particular attention:

1. These assets are a critical backbone of the economy, wellbeing of the residents, and government service delivery. In California, state assets include highway transportation infrastructure, water resource infrastructure, the property of public universities, land reserves for school education, and they also house a number of important public services, from the government itself to correctional and rehabilitation facilities.
2. Capital assets constitute a very substantial part of the public wealth that governments control on the behalf of their residents, and the case of California is not an exception. Out of a total of about \$192.3 billion book value of all Californian assets, capital assets constitute about \$119.1 billion or 62%.[i] The lion's share of which is in land (9% of the value of all assets on the balance sheet), highway infrastructure (31%), and in buildings and other improvements (17%).[2]
3. Capital assets are also the source of major government liabilities, from repayment of long term debt incurred for building these assets to a need for decontamination of many sites to often hidden

[1] The author is thankful to Ms. Whitney Barazoto from the Little Hoover Commission for providing information and data for this review.
[2] The book value of these assets does not reflect their economic value, but still is instructive. Besides, the numbers above would be smaller if depreciation is deducted.

deferred investment in maintenance and recapitalization of the existing building stock and infrastructure. In California, capital investment in public infrastructure and property relies heavily on borrowing, thus increasing the state's debt liabilities. For example, out of $8.5 billion of appropriated funding for capital investment in FY 2009-2010, about 88% are financed by state bonds.[ii]

4. Expenses related to operation and maintenance of capital assets constitute a substantial part of the government operating expenses. Thus, at local governments in Germany, this item of budget expenses is the second largest, after salaries.

Why good management of these assets is important

The importance of good asset management obviously reflects the importance of the assets themselves:

- If assets are not managed properly, their quality and quantity would become insufficient to support economic development and quality of life.
- With such a big portion of people's collective wealth in public land, infrastructure and buildings, it matters what the government does with these assets: whether it maintains and preserves their value and uses wisely revenues these assets generate (both from sales and rentals) or, on the contrary, depletes this wealth without long-term benefits to this and next generations, and
- With asset-related expenses, both capital and operating, being a major part of budgets of sub-national governments, cost-efficiency in delivery and use of buildings, facilities, and infrastructure assets is critical for reducing budget expenses.[iii]

International experiences indicate quite clearly that good asset management starts from good policies, good governance, and incentives – all translated into proper regulations and, after that, implementation. Moreover, good asset management is often simply impossible without this policy / governance level being set up right and accompanied by the appropriate incentives where needed.

. What appears not to be recognized well by many governments is that sales of land have deep similarities with long term borrowing, and should be bound by similar principles of good governance.[iv] In particular, in most sub-national jurisdictions in developed countries and in many developing countries, the common regulation regarding long-term borrowing is that it must be used for capital investment only. It reflects the basic 'golden rule' of macro finance, that debt should be used for capital formation or other expenditures that fit appropriately within a capital budget. Similarly, good land/asset governance should stipulate that asset sale proceeds must be used to finance capital expenditure (including repayment of asset-related debt), finance similar investments or one-time budgetary expenditure reforms.

In this regard, California apparently does not have this principle of good asset governance in place: land / property sale revenues go into the repayment of the Economic Recovery Bonds (ERB) of 2004 that were used to repay the accumulated budget deficit. This removal of asset capital (sale) revenues from the cycle of creating and using capital assets most probably will have long term negative implications for existing property assets. This concern was also expressed in the Department of General Services (DGS) testimony in October 2011. However, even before tying the asset sales revenues to the ERB, these revenues were going into the General Fund, which did not guarantee that they would be spent on capital investment or repayment of asset-related debt.

Lack of incentives for good asset management in California is well documented in the draft report of the Little Hoover Commission (2012) and the October 2011 testimony by the DGS. In particular, property holding agencies apparently do not have incentives to identify and release surplus property and are disincentivized to provide data into the state asset inventory database (DGS charges a small fee for each record they provide into the system).

Canada provides an example of how the formula {Policy + Incentives} can turn a situation with surplus property around. According to McKellar (2006),[v] in 2000, the Treasury Board of Canada adopted a new policy that authorized sharing 100% of net proceeds from the sale or transfer with custodian departments on the condition that:

- the department has a strategic investment framework, including a long-term capital plan, approved by the Treasury Board;
- the proceeds are reinvested in real property, consistent with the strategic investment framework; and
- the departments meet the reporting requirements to the centralized Directory of the Federal Real Property.

This revenue-sharing initiative represented a significant change in the real property management system over previous decades and reflected a fundamental shift in how governments view real property in relation to the delivery of services and programs. It became the policy that the Canadian federal government properties that were no longer required for program purposes be disposed of by sale or transfer at market value. Introduction of the above policy, along with institutional provisions on how sales should be handled, led to the brisk identification and sales of federal surplus properties across the country.[3]

How the current fiscal crisis, coupled with real estate crisis, impacts government asset management

Modern history of asset management internationally shows that fiscal crises create both new risks and new opportunities. The current fiscal crisis on all levels of government amplifies the risks to which the assets are subject even in better times, and converts some of the risks from possibilities into grim realities, as illustrated below.

On the other hand, this crisis can open dormant opportunities, in particular, for capital assets to become better integrated in public financial management. It has generated or accelerated creative thinking and actions toward higher efficiency in managing and using government property (as discussed in the next section). Moreover, it was the fiscal crisis in Australia and New Zealand in the 1980s that led to comprehensive reforms of asset management in both countries.[vi]

One of the current positive developments is that the crisis sparked interest to the subject of government asset management among organizations that can help promote good practices. For example, in 2010, the California Association for Local Economic Development developed and offered to its members—local governmental agencies—a workshop on asset management issues. Professional organizations that have been involved in advising governments on asset management or facilitating experience exchange, such as the National Executive Forum on Public Property (Canada), Royal Institution of Chartered Surveyors and Chartered Institute of Public Finance and Accounting (both UK), intensified their work to exchange latest ideas and experiences, including across country borders. Organizations new to this field are entering it as well: the National Association of Realtors (USA) is making first steps into this arena.

[3] It should be noted that Canada undertook a broader asset management reform, and this policy was just one of its components.

As always with crises, government capital assets are getting pulled into attempts to address fiscal problems that many national and sub-national governments experience. Sales of property assets for paying off government debts have been used in the past. Similarly, they should be a part of the solution this time as well, given how much wealth is concentrated in them. However, the issue of concern is whether these assets will be tapped strategically and prudently—or wasted in an attempt at short-term fixes.

Outcomes will depend on many factors and can potentially range from the devastation of public wealth to in the long term healthier sub-national finance. Without doubt, they will have an impact on the competitiveness of countries, regions and localities, and on the quality of life. In particular, on the public services side, it is likely that the crisis will accelerate the reduction of some services—the process that has been quietly brewing since even before this crisis.

Here are the key elements and implications of the crisis' impact on government assets:

A decline of planned land / property sale proceeds, due to a downturn on the real estate markets. A powerful lesson – if decision-makers want to listen to real estate professionals – is that planning a disposition process should be tied not to annual pressure to deliver a targeted amount from sales, but instead to the market cycle and financial analysis of cost and benefits of disposing of a property now versus later. For buffering an impact of the real estate cycles on government budgets, sale revenues can be placed in a separate multi-year fund which would release some amount into the annual budget.

It appears that when land/property assets are managed by a specialized entity that has some degree of separation from government, this provides a certain level of protection for land assets from being disposed of without long-term planning or at the wrong time. For example, the Arizona State Land Department manages Trust Land for its beneficiaries within a long-term framework protected by special federal legislation. The Canada Lands Company, which manages strategic federal surplus properties, is a government corporation and as such has certain protections from direct interventions of the government in its business plans. In California, the State Land Commission and the state university systems have more latitude for asset management efficiency than the DGS has.

Spotlight on a mismatch between public budgetary systems and good asset management. The crisis certainly shed more light on this structural problem within public management: public budgetary systems (more precisely, the regulations and practices) often do not support—or sometimes even directly obstruct—strategic and efficient asset management and lead to systematically unhealthy practices. One example is the system of funding for the General Service Administration (GSA) at the federal government.[4] In California, the October 2011 testimony by DGS provides multiple examples of the same phenomena, when the effectiveness and efficiency of DGS operations are limited by budgeting and approval processes, among other reasons. For example, the DGS does not have an established and permanent funding source for making tenant improvements for vacant space in government buildings and needs to get piece-meal approvals for each such project, which slows the process of placing tenants in vacant premises and makes the process more expensive.[vii]

Fire sales**.** Under pressure fromthe fiscal crisis, governments attempt to generate some revenues by disposing of a wide range of assets, despite obviously bad timing for the disposition of most properties, given the real estate crisis. Assets slotted for sale vary from income-generating businesses to infrastructure to real estate, including the sale/lease-back of government-occupied buildings. This process seems to be especially large-scale and visible in Europe (Ireland, the UK, France, Germany, Italy, and

[4] Details are provided in the paper cited in endnote iii.

Greece). It should be noted though that some counties, like Germany, set up more long-term schedules for property dispositions, so these sales are not fire sales.

Many transactions are becoming much politicized and subject to pre-election demagoguery, be this an intention to privatize the liquor wholesale and retail business in Virginia (currently the state monopoly) or sale/leaseback deals with government buildings in Arizona and California.[viii] However, politicking aside, sale/leaseback deals may have an important public finance aspect that deserves an open and honest discussion. In many cases, these deals would lead to gaining cash now at the cost of losing on net present value in the long term. Consider the case of the “Golden State Portfolio” offered by California for bid in spring of 2010. The portfolio had 11 state-owned and government-occupied buildings in Los Angeles, Sacramento and San Francisco, with 7.3 million square feet of office space. From information available it appeared that the deal, as the government offered it, would supply the state with up-front cash to pay off some construction bonds and invest in capital projects, but would cost more over the 20-year contract period, compared with the option of continuing governmental ownership. Situations with sale/leaseback deals when long-term benefits to taxpayers are disputed are not always the case,[ix] but when they emerge and if they become known to the public, they often stir up public controversy, despite the fact that in terms of long-term impact on taxpayers, these deals can be no worse than the alternative of continuing to own the buildings but also continuing standard public borrowing. Another issue intrinsic for complex transactions and instruments like sale/leasebacks or other PPPs is that conclusions about their costs and benefits to taxpayers depend on the quality of financial analysis, its assumptions, and on what was and was not included in the analysis.

Further, the sales rush increases the risk of governments’ entering badly structured deals, especially in such complex cases as sale/leaseback for real estate, or PPPs for infrastructure and utility companies. For preparing a reasonable deal and good-quality procurement, about six to 12 months are needed, along with specialized expertise representing government’s interests. Attempts to move faster or cut costs will, most probably, lead to losses for taxpayers and the government.

Last but not least, properties disposed of in fire sales are often (if not as a rule) selected haphazardly, without strategic planning and sufficient professional considerations. This unavoidably will lead to negative implications in the future, including the future public costs.

<u>How will sale proceeds be spent?</u> One of the biggest asset-related risks of this crisis is that the land and income-generating assets will be converted to a one-time cash injection without improving the long-term financial standing of government and without other assets (infrastructure) created. In practice, main uses of sale proceeds include:

1. Patching operating budget deficit,
2. Paying contingent liabilities,
3. Paying-as-you-go for capital investment projects, and
4. Paying off long-term debt.

As mentioned above, the first of these options would be *the worst* public outcome imaginable, worse, in general, than uncontrolled borrowing for capital investment. Public assets that should be passed on to the next generation are exchanged for current consumption. The second option seems to be not much better. However, in the current fiscal crisis, both options will be proposed and implemented in some jurisdictions, though they can be masked by details of complicated, multi-step budgetary cash flows.

Spending sale proceeds for paying off long-term debt or for funding capital projects on the pay-as-you-go basis are the options that can and should be a part of a prudent fiscal policy. This assumes, of course, that paying off the long-term debt is a part of a broader fiscal and austerity policy that prevents government from falling into over-borrowing again.

Reduction of operating, maintenance and recapitalization budgets associated with property and infrastructure assets. There are countless examples of this crisis-induced process, from libraries and even schools operating on part-time schedules, to reduced or suspended maintenance and repair of public facilities—in addition to the chronic deferred maintenance long before the crisis. Obviously, this accelerates the decline of aging facilities, which implies that more funding would be needed for their rehabilitation in the future.

Reduction of government property holdings in the longer term. In some instances, the crisis and a grim outlook for public spending on property operation and maintenance in the foreseeable future will force politicians and decision makers to recognize the fact that many government asset managers have been signaling for a long time: A chronic shortage of funding for operation, maintenance and recapitalization of some portfolios cannot be sustained any longer. The only available solution is a reduction of the portfolios through a combination of disposal (sale or lease) and/or mothballing some properties in these portfolios.

Establishing targeted sectors/portfolios for these measures is a big issue for policy decisions, and one can expect that answers will vary among countries and sub-national governments. In general, this is the area where a reduction of norms, formal and informal, regarding provision of public goods and services, along with governments' uses of properties for their operations, can be expected – and already takes place (see next section). This, in turn, would lead to re-defining what the core assets are and what should be declared surplus in each property class or under each managing agency. In California, this process will be complicated by an unclear difference between "excess" and "surplus" properties.[x] In the best case, a shift of the norms for government property consumption and property-based services would be based on evidence-based careful strategic considerations of costs and benefits, after a *unified*, *cross-agency* (and *cross-portfolio*) analysis. However, given how institutionally fragmented government asset management is, it would be overly optimistic generally to expect such a whole-of-government approach. Moreover, there is a risk that government bureaucracies would make some effort to shield the properties they use themselves from application of austerity and downsizing measures, while pushing the burden on public-use and fiduciary properties. In North America, one can suspect that after easy targets—like vacant school buildings in neighborhoods with changed demographics—are gone, government-owned parks and historic properties might be among the first portfolios to experience direct downsizing.

Where the whole-of-government optimization of the portfolios is not feasible, the next best option would be making rational decisions within each agency. Not all agencies are prepared to make such decisions. This makes dissemination of good methodologies for prioritizing properties in large portfolios developed by some agencies (e.g., by the U.S. National Park Service and Parks Canada) critical for preventing expensive or irreversible mistakes.

Reduction of public capital investment in the short and middle terms. Similar to reduction of property-related operating expenses, new capital investment has been postponed or canceled in countless instances, often through 2014 or so. It remains to be seen for how long this decline will persist.

Elements of prudent asset management, crisis or not crisis

International experiences show that historically formed asset management at any particular government is usually fragmented and has multiple inefficiencies. Governments that moved beyond this stage (e.g. Australia and some of its provinces, Canada and some of its provinces, the UK), did so by designing and implementing comprehensive (versus piece-meal) reform of asset management. Asset management modernization often is a part of a broader effort to improve government financial management. This asset management modernization is usually spearheaded by Ministry of Finance / Treasury or Department of Finance.

One of the key premises of modernized asset management at governments is that it uses many efficiency-seeking approaches utilized for asset management by private non-real estate corporations. Modernized asset management also uses policies and incentives as a key instrument. For example, Canada's asset management is framed by the *Policy Framework for the Management of Assets and Acquired Services*.[xi] Australian reform in 1996-1997 was based on "whole-of-government" property management principles applied to all Commonwealth organizations other than government business enterprises (see Annex 1). These principles were later replaced by a set of other policies.[xii]

Reform efforts often start from an authoritative and comprehensive report outlining problems and a need for change, sometimes with international references. For example, when the Ministry of Land, Infrastructure, Transport and Tourism in Japan recognized that local governments needed assistance on managing their assets better, it hired a consulting entity and tasked them to identify best practices at the private corporations in Japan and at local governments across the world. This team traveled to a number of countries, to collect data and interview experts.

One of the common themes for all governments that undertook comprehensive modernization of asset management is a long-term strategic approach and use of advanced instruments such as:

- Asset Management Strategy,
- Strategic asset planning and multi-year capital investment planning, including *life-cycle costing*,
- Outsourcing of various property related services, from outsourcing the management of the entire portfolio of federal properties in Australia to outsourcing various property management functions, using *performance-based contracts*,
- Use of special purpose corporations for managing assets (Canada has experimented a lot with this instrument), and
- Increasing use of PPPs for infrastructure and service delivery (the UK, Canada, and elsewhere).

The current fiscal crisis hit all governments, regardless of their level of advancement in asset management. However, responses in the area of asset management depend substantially on where in the asset management landscape the government was when the crisis happened. In general, however, coping with fiscal constraints leads to a search for cost efficiency (in addition to revenues from dispositions, which was already discussed). In particular, here are some examples:

- Moving different agencies in a smaller number of buildings (UK, USA),
- Consolidation of not only accommodation, but some other elements, such as procurement, as a part of "shared service" concept (Canada, UK),
- Moving agencies together not only horizontally (the same level of government) but vertically as well (central and local government, UK),
- Moving to cheaper locations (UK),
- Reduction of space needs and increased density of space utilization through telecommuting, space redesign, space sharing and "hoteling" employees in government offices (see photo below) (USA, Canada, UK). The US's General Service Administration reduced its space per employee twice by introducing such measures at its headquarters building. The UK government targets a similar, close to 2-times reduction of space, government-wide[xiii]
- Disposal of surplus properties (everywhere),

- Sustainability of the portfolio "greening" government properties as the matter of policy (Canada, UK),
- Moving back in government-owned buildings, away from leased space (UK, the Netherlands),
- Performance management and benchmarking for buildings and facilities (space per employee; the total cost of operation and maintenance per sq. foot and per employee; administrative cost per sq. foot, etc.) (Australia, Canada, the UK),
- Evolving approaches to PPPs and their cost to taxpayers – not to depart from PPPs as an important instrument (which would be impossible, given a big gap in infrastructure finance needs and public finance capacity), but to make them a better deal, and
- Increased interest in looking for good experiences beyond country's borders.

Source: D. Foley, Deputy Commissioner, U.S. GSA, Counselors of Real Estate Conference, Washington, DC, November 3, 2011

What California could do to improve asset management

This testimony is not a document where a comprehensive assessment or recommendations can be given. Based on my brief review of materials provided by the Little Hoover Commission, open government sources, and literature, I can offer the following observations:

1. The past efforts to improve asset management in California produced some positive results, which not all states in the US have achieved. For example, California has a unified information system that contains inventory data on all property the State owns (with some exceptions) and a substantial part of land and property leased from the private sector. This system provides important data for effective management of the rental portfolio under control of DGS.

2. I agree with the conclusion of the draft report by the Little Hoover Commission that California lacks strategic approach to asset management. In particular, too much attention is focused on disposal of surplus properties by DGS, and not nearly enough on improving efficiency and performance throughout the entire web of agencies holding and managing state land and property.

I also agree that the system lacks incentives for good asset management and even has direct disincentives (see the draft report by the Little Hoover Commission).

3. Moreover, it appears that *policies* as the instrument of asset management are not used at all.

4. Available materials indicate that some initiatives that should be a matter of asset management policies are undertaken, instead, by the initiative of particular agencies. For example, DGS "greened" about 50 state facilities from the portfolio under its management (made them LEED certified), according to its comprehensive asset management program. However, these "greened" buildings constitute only 5% of the total number of buildings and facilities owned by the state.

5. The DGS manages only 3% of state land and 44% of the floor space in buildings and facilities.[xiv] Therefore, instead of focusing on DGS portfolios only, much more attention should be paid to asset management performance and efficiency of other main holders of land and property, such as State Land Commission (SLC), Department of Transportation, University of California, and California State University. For example, the California State Auditor found multiple flaws in how SLC manages its portfolio of 4,000 leases, resulting in revenue loss.[xv] Are there any performance targets about this portfolio that SLC would be required to achieve, along with other holders of state property?

6. In my view, the overall system of managing state land and property assets in California needs to be modernized. It is not clear, however, to what extent such modernization is feasible within the current system of governance in California, without broader political, governance, institutional, and fiscal reforms. This concern echoes the one formulated by researchers in California in the context of state's infrastructure needs.[xvi]

7. In practical terms, a possible way of approaching such modernization may include the following first steps:
    - Finalize the Little Hoover Commission report and make it as comprehensive as possible.
    - Establish a special cross-agency Task Force (TF) for designing a comprehensive asset management modernization. It should be led by Department of Finance and include asset managers from various agencies, and representatives of the state legislature. Its work should be supported and facilitated by professional experts on asset management and on governance and fiscal issues in California. Studying international experiences – both from literature and direct contacts - is highly recommended, in particular from Canada, Australia, and, to some extent, from the UK.[5]
    - This modernization effort should start not from any institutional solution or legislative action, but from formulating and agreeing - within the government and with the public – on general policy principles, which can be codified into law after that (or left as policies reinforced by incentives).
    - Before zeroing in on any institutional solutions (like converting DGS into a corporate body) all available options should be studied. In particular, the Canadian experiences

[5] The author of this testimony is ready to provide initial contact information.

with government corporations and Australian experiences with outsourcing portfolio management.

Moreover, if and when corporatization of asset managing entities (departments) would take place, it is very important to follow the contemporary approaches to good governance of such corporations. Corporate-type entities used in California and other states in the past often do not conform with principles of good governance generally recognized to date. A useful outline for setting up such a corporation is provided in *International Experiences on Government Land Development Companies: What Can Be Learned?*- IDG Working Paper No. 2011-1, February 2011. http://www.urban.org/UploadedPDF/412299-Government-Land-Development-Companies.pdf

8. One of the fundamental long-term issues that California needs to address is how the state funds and finances recapitalization and replacement of infrastructure, buildings, and facilities when they end their useful life. A strategic change would be to reduce dependence of borrowing and gradually increase use of special reserve funds established for this purpose. Use of such funds in Japan is illustrated in the box below.

Recapitalization of School Facilities, Tokyo's Chuo Ward

As do many other administrative areas in Japan, Chuo Ward, 1 of the 23 wards of Tokyo's metropolitan government, keeps a fund for the maintenance, rehabilitation, and replacement of school facilities. The ward sets aside annually an amount close to the depreciation amount for the ward's 16 elementary schools and 4 lower secondary schools. The fund may be used only for the intended purposes unless the ward council decides otherwise.

At the end of FY 2009, the balance of the fund stood at approximately ¥10 billion (US$100 million), which was sufficient to construct 3 school buildings. Under a long-term investment plan, Chuo Ward plans to replace three school buildings in a few years.

Source: Suzuki and others. Eco2 Cities.- World Bank, 2010.

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[i] State of California *Comprehensive Annual Financial Report* For the Fiscal Year Ended June 30, 2010. http://www.sco.ca.gov/Files-ARD/CAFR/cafr10web.pdf

[ii] Ibid.

[iii] Multiple links between governments' property assets and budgets are discussed in more detail in Kaganova, Olga. Government Property Assets in the Wake of the Dual Crisis in Public Finance and Real Estate: An Opportunity to Do Better Going Forward? – *Real Estate Issues*, 2010/2011, vol. 35, #3. http://www.cre.org/memberdata/pdfs/Government_Property_Assets.pdf

[iv] Peterson, George and Olga Kaganova. *Integrating Land Financing in Subnational Fiscal Management.* – World Bank, Policy Research Working Paper # 5409. 2010

http://econ.worldbank.org/external/default/main?pagePK=64165259&piPK=64165421&theSitePK=469372&menuPK=64166093&entityID=000158349_20100831151725

[v] McKellar, James. *Framework for Real Property – Government of Canada*. – In Olga Kaganova and James McKellar (Editors). Managing Government Property Assets: International Experiences. - The UI Press, Washington DC, 2006.

[vi] See respective chapters in Olga Kaganova and James McKellar (Editors). Managing Government Property Assets: International Experiences. - The UI Press, Washington DC, 2006.

[vii] Little Hoover Commission. Department of General Service Testimony for October 25, 2011 Informational Hearing.

[viii] *"Cash-Hungry States Are Putting Buildings on the Block,"* New York Times, *May 4, 2010. http://www.nytimes.com/2010/05/05/realestate/commercial/05states.html.*

[ix] For example, in the 1998 "PRIME" deal in the U.K., the Department of Social Security sold its entire portfolio to a private consortium within a sale/lease-back deal that was expected to produce public budget savings of about 20 percent over 20 years, compared with continuing government ownership.

[x] According to the findings of "Overview of California's Real Property Management System" – Draft report by the Little Hoover Commission, January 2012.

[xi] http://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=12022.

[xii] Details on the Canadian and Australian asset management reforms can be found in Olga Kaganova and James McKellar (Editors). Managing Government Property Assets: International Experiences. - The UI Press, Washington DC, 2006.

[xiii] The State of the Estate in 2010. - HM Government.
[xiv] Based on the data from Little Hoover Commission. Department of General Service Testimony for October 25, 2011 Informational Hearing.
[xv] http://www.bsa.ca.gov/pdfs/factsheets/2010-125.pdf

[xvi] Getting to 2025: Can California Meet the Challenges? Research Brief. – Public Policy Institute of California. 2005, June, Issue # 100.

Annex 1. Property Principles of the Australian Government (1996)

1. The Commonwealth should own property where the long-term yield rate exceeds the opportunity cost of capital, currently set at 11 percent,[a] or where it is otherwise in the public's interest to do so.
2. Public interest considerations that may influence the decision whether the Commonwealth should own property include circumstances where the property has
   - national symbolic significance,
   - national security requirements,
   - strategic significance to future government use,
   - highly specialized uses that would significantly inhibit commercial provision,
   - significant heritage and environmental requirements,
   - significant public use,

- characteristics such that the nature of the use or development of the property by the Commonwealth would give a potential lessor excessive negotiating power in the future (e.g., where the Commonwealth needs to make a large investment in specialized improvements to meet tenant needs),
- special diplomatic requirements where either no market exists or government-to-government reciprocity arrangements in the context of the Vienna conventions apply, or
- clear evidence of market failure. This could include properties such as small regional offices in isolated locations where there would be no other tenants should the property become vacant or where private investors would demand excessive rates of return to recover their investment over the life of a lease, as well as those in markets where there is a predominance of Commonwealth ownership.

3. The onus should rest with the proposing agency to demonstrate clearly the characteristics of the property that warrants Commonwealth ownership.

4. Where market failure is claimed, the market circumstances for the property should be adequately tested, including consideration of offering lease terms or conditions that might allow private investors or developers to convert a government guarantee of rental income into the capital necessary to provide the accommodation and earn a market return.

5. Where market failure is established, the relevant minister should present the proposal as part of the annual budget request to Cabinet.

   a. This percentage is set by the Department of Finance and Administration through a consultative process and revised as necessary.

6. To encourage efficient, effective, and transparent decision-making and accountability,

- the using agency or program should fully report the costs of property use (whether owned or leased, domestic or overseas);
- property costs should be measured (and wherever practical, charged) on the basis of competitive neutrality—that is, costs to the Commonwealth should be measured on the same basis as in the private sector; and
- property costs should recognize the costs of holding unused land in reserve for possible future use, except for certain land with national significance and where disposal is not an option.

7. When seeking the provision of accommodation to meet Commonwealth needs, a proactive approach should be taken to inform the market well in advance of the project so that the market has time to develop solutions to meet the Commonwealth's needs.

8. Where Commonwealth ownership is decided upon, the property should be managed so as to retain the maximum long-term economic advantage to the taxpayer. Financial and/or organizational arrangements should be made to ensure effective maintenance and refurbishment of the facility is to agreed standards. Failure to do so risks Commonwealth exposure to high property vacancy rates, additional costs, and failure to meet its legal obligations under Occupational Health and Safety legislation.

9. For Commonwealth agencies occupying property owned by another part of the Commonwealth, occupancy agreements should be formalized between the Commonwealth property owner and the occupying agency.

10. Conditions and rentals should be market-based. All agreements between arms of the Commonwealth should be binding and transferable on sale of properties. Where such properties

are identified for sale, the occupancy agreements should be placed in a form that facilitates completion of the sale.

11. Property management services provided within Commonwealth bodies should be fully market tested, including the option of in-house bids consistent with the principles established in the Commonwealth's competitive neutrality policy.

12. Where property is being provided on an internal market basis, there should be a clear separation of responsibility between the area responsible for maximizing the performance of Commonwealth-owned property and any area responsible for tenant advocacy.