

**Little Hoover Commission
Written Testimony for June 22, 2017 Hearing
Jim Martone, Asset Management Branch Chief, Real Estate Services Division**

Good morning, Commissioners. My name is Jim Martone. I appreciate the opportunity to provide an overview of DGS' role in the process of leasing veterans home property. I am the Chief of the Asset Management Branch within Department of General Services' Real Estate Services Division. This branch includes the State-Owned Leasing and Development Unit, which writes and manages leases of state real property. With me, I have Robert McKinnon, Assistant Branch Chief, whose section includes the State Owned Leasing and Development Unit.

Overview of Department of General Services, Real Estate Services Division, Asset Management Branch, State-Owned Leasing and Development Unit

The Department of General Services' (DGS) Real Estate Services Division (RESA) is a full-service real estate organization. Through a diversified team of highly competent and knowledgeable professionals, RESA's highest priority is to fulfill state agencies' facility and real property needs.

The State Owned Leasing and Development unit within RESA's Asset Management Branch leases state real property that is excess to the current program needs of nearly 20 state agencies, including the California Department of Veterans Affairs (CalVet), to non-state tenants and provides management of the leases until needed for state use. DGS negotiates, prepares and executes leases and lease renewals on behalf its client agencies. DGS's goal is to work closely with the client agency throughout the process to ensure their needs are being met and the lease is in the best interest of the state.

Authority

Pursuant to Government Code Section 11005.2, DGS is responsible for approving "...every conveyance, contract, or agreement whereby an interest of the state in any real property is conveyed, demised, or let to any person..." unless expressly exempt from DGS review and approval. In addition, Military and Veterans Code Section 1023 (b) authorizes DGS to lease or let and real property held by CalVet for the Yountville and Barstow veterans homes, and not needed for any direct or immediate purpose of the home, to any entity or person upon terms and conditions determined to be in the best interests of the home. For other departments that lack such specific authority, Government Code Section 14670 authorizes DGS, with the consent of the state agency concerned, to lease out state real property for up to five years.

What is the process to establish a new lease on the property?

State agencies typically submit a request to DGS when they have property they would like to offer for lease to non-state tenants. In addition, DGS receives public inquiries regarding the opportunity to lease state property and seeks feedback on whether the client agency would like to offer a property for lease. For client agencies that prefer,

DGS can prepare a request for proposal and be involved in the competitive bidding process for a leasing opportunity.

Once established, how are the terms of leases set, monitored and reviewed?

DGS works with prospective lessees to qualify their intended use for compatibility with the state program and negotiates the lease terms and conditions, including, but not limited to: the term of the lease, monthly rental, legal enforceability, hazardous conditions, insurance requirements, non-discrimination, access to the property, indemnification, maintenance; and termination. DGS prepares the lease agreement, then the client agency reviews the draft and provides comments, as needed, before the agreement is sent to the lessee for signature. While DGS ultimately approves the leases, the client agency is also a party to the lease agreement.

Typically, once DGS executes a lease on behalf of a state agency, the agency is then responsible for monitoring to ensure the tenant complies with the conditions of the lease. DGS assists client agencies with interpreting the lease if there are any questions or concerns, and with enforcement of the lease, if requested.

Additionally, how is money from these leases collected and how is it used?

CalVet receives rents directly from lessees and monitors payment. Military and Veterans Code Section 1023 (b) specifies that "...except as provided in Section 1048, all moneys received in connection therewith shall be deposited in the General Fund to the credit of, and shall augment the current appropriation for the support of, the home." CalVet may be able to provide information about the use of these lease revenues.

Thank you again for the opportunity to share DGS' role in the process of leasing veterans home property. I am happy to answer any questions, and follow up with your staff with information if needed.