STATE OF CALIFORNIA
GEORGE DEUKMEJIAN, *Governor*

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY
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CALIFORNIA STATE GOVERNMENT'S MANAGEMENT OF REAL PROPERTY

MARCH 1986

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A Report of the
COMMISSION ON CALIFORNIA STATE GOVERNMENT
ORGANIZATION AND ECONOMY

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March 1986

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Honorable Patrick Nolan
Assembly Minority Floor Leader

Dear Governor and Members of the Legislature:

In July 1985, our Commission initiated a major study of the State's management of real property. The State of California owns and manages enormous property holdings. Overall, the State utilizes more than 65 million gross square feet of space spread throughout more than 10,000 buildings.[1] Additionally, the State owns more than six million acres of land. Simply put, the State of California is one of the largest property owners and managers in the nation, and probably the world. To say the least, these State property holdings are worth billions of dollars.

The Commission modeled this study after the work of President Reagan's Special Commission on Government Efficiency chaired by Mr. Peter Grace, Chairman of the Board of the W.R. Grace Corporation. The "Grace Commission's" review of Federal property management produced recommendations the majority of which have been implemented, saving approximately $4 billion over three years. We believed that a similar study of State property management would lead to parallel findings and tangible savings and new revenues totalling hundreds of millions of dollars. And it did.

Overall, the Commission concluded that the State's management of property is accountable to no one and is out of control. Unlike the private sector, property management in State government is neither strategic nor systematic and lacks any incentives to efficiently and effectively manage these extremely valuable assets.

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[1] These figures exclude the university systems.

We were appalled to learn that the State has no central inventory of its properties, does not know the value of its buildings and key land holdings, rarely analyzes alternative use and leveraged capitalization opportunities for its properties, and has absolutely no idea of how much the taxpayer spends in support and management of these properties. Consequently, there are no measurable objectives or incentives to cut costs by increased efficiencies, or to increase revenues through proper "pro-active assets management." In other words, there is no "system" of management, no control.

During the course of our study, the Commission held two public hearings, interviewed scores of private sector property management experts, surveyed State agencies, and conducted extensive research and analysis under the guidance of the Study Subcommittee members, Commissioners Bouskos, Gersten, and Mardikian. Among our specific findings are the following:

- State property management is accountable to no one and is out of control. At least fifteen different agencies own and manage varying amounts and types of property.

- There is no general strategy for property management that recognizes the value of these assets as a basis for their management.

- It is virtually impossible to determine how much the State spends each year in support of its billions of dollars in property assets. As a result, no one in the State knows how efficient or inefficient our property management really is. We asked officials how much the State spends on rent, maintenance, utilities, alterations, and other support activities. No one could answer.

- The State does not actively identify opportunities for increasing revenues and cutting costs. During the course of our study, we identified $224 million worth of property that could be disposed of without affecting State operations or plans. We also identified opportunities to increase revenues and cut costs ranging from $5-$41 million from such alternatives as leasing State-owned property and sale-leaseback arrangements.

- Lack of central accountability has led to duplication of staff necessary to manage property.

- There is no attempt to set measurable objectives for reducing overall "occupancy cost," as is common practice in the private sector, nor to measure their accomplishment. If the State accomplished the modest objective of cutting occupancy cost by 3 percent for each of three years, it would save at least $35 million.

- There are no incentives for a department or its property managers to cut occupancy costs. Both are, in fact, rewarded for "bigger" government.

- There is no central inventory of State property holdings. The existing inventories are inaccurate and fail to maintain critical data. Some agencies reported to us leased and owned space hundreds of thousands of square feet greater than that reported in the inventory maintained by the Department of General Services.

To improve the organization, management and accountability of the State's management of real property, our Commission has developed a series of detailed recommendations which include the following:

1. Authorize a "pro-active assets management" pilot project for a selected geographic area of the State using an expert consultant to (1) identify all State-owned property; (2) determine its value; (3) analyze all alternatives for selling, exchanging, leasing, or restructuring ownership; (4) estimate potential revenues; and (5) propose a model assets management system.

2. Adopt an organizational structure for State property management which establishes mechanisms designed to assure accountability of decision making. Such a structure should centralize policy development, require the development of operational plans, establish procedures for accountability, and monitor accomplishment of measurable objectives.

3. Develop incentives for both departments and individual property managers to achieve increased revenues and reduced occupancy costs.

4. Analyze property management staffing in the fifteen major agencies owning and managing property and cut positions where appropriate.

5. Create a centralized inventory maintained by the Department of General Services and accessible by the other 14 major departments.

We believe the Governor and Legislature must act immediately to develop a strategic and systematic system for managing our billions of dollars in real property. Accountability must be identified and control established. The pay-off will be immense in the form of hundreds of millions of dollars in new revenues and reduced costs. In a fiscal environment influenced by the anticipated cuts in Federal revenues resulting from the Gramm-Rudman Act, and the constraints imposed by the Gann spending limit, pro-active assets management of the State's real property could lead to the timely addition of new revenues not subject to these constraints.

Respectfully submitted,

Members, State Management of
Real Property Study Subcommittee
James Bouskos, Chairman
Albert Gersten, Jr.
Haig E. Mardikian

NATHAN SHAPELL, Chairman
Senator Alfred Alquist
Mary Anne Chalker
Senator Milton Marks
Assemblywoman Gwen Moore
Lester Oshea
Abraham Speigel
Jean Kindy Walker
Assemblyman Phillip D. Wyman

This report presents findings and recommendations developed by the members of the Commission on California State Government Organization and Economy under the guidance of a study subcommittee consisting of Commissioners James Bouskos, Albert Gersten, Jr., and Haig Mardikian.

The report was prepared for the Commission by TROUBLESHOOTERS, Decision Strategy and Policy Development Consultants located in Sacramento, California.

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EXECUTIVE SUMMARY

The State of California is one of America's largest property owners and property managers. Specifically, California owns more than 65 million gross square feet of space in buildings of all types including offices, warehouses, prisons, museums, hospitals, garages, equipment storage sheds, records archives, and other types of constructed space. The State leases an additional 8 million square feet of office space statewide to accommodate State operations. Conservative estimates place the total replacement value of the more than 10,000 buildings owned by the State at somewhere between $1.35 billion and $2 billion. We believe the total value is substantially higher.

California is also a major landowner, currently holding more than six million acres. An unknown number of State-owned land parcels are located in prime real estate markets in metropolitan areas from San Francisco to Los Angeles and San Diego, from Redding to Fresno and Bakersfield.

More than 2,600 individuals are employed by the State to manage, clean, repair, and alter State-owned and State-leased facilities at a total cost of more than $160 million annually. The State pays an additional $385 million annually for "facilities operations" and utilities.

WHY STUDY PROPERTY MANAGEMENT IN CALIFORNIA STATE GOVERNMENT?

Given the proportions of property management in State government, the need for systems to effect cost controls and efficient management is clear. A major study of real property management in the Federal government, however, had concluded that the Federal approach to property management was antiquated and, as a result, was wasting literally billions of dollars.

Nathan Shapell, Chairman of the Commission on California State Government Organization and Economy -- also known as "the Little Hoover Commission" -- was also a member of the Special Commission appointed by President Reagan to conduct a Private Sector Survey on Cost Control in the Federal Government. (The President's Commission was chaired by Peter Grace, Chairman of the Board of the W.R. Grace Corporation; that Commission, now disbanded, is still frequently referred to as "the Grace Commission.") Mr. Shapell co-chaired the Task Force on Real Property Management within the Private Sector Survey and, based on the Task Force's findings, urged the Little Hoover Commission to undertake a similar study of California's property management systems. Recognizing the substantial potential benefits to California taxpayers, the members of the Commission undertook the study which led to the following major conclusions and specific findings.

STATE PROPERTY MANAGEMENT IS NOT STRATEGIC

California's approach to property management is "custodial" rather than strategic. It is premised on a static view of property ownership in which property is seen almost exclusively as a cost. A dynamic view of property

ownership recognizes property as an asset whose value in exchange can yield revenues that exceed a given property's value in its present use. The Commission has coined the term "pro-active assets management" to refer to the strategic approach to property management we believe should be instituted in State government.

The benefits of pro-active assets management can be quantified in dollars and cents. Due to the potential magnitude of cost savings and revenue increases, we urge the Governor and Legislature seriously to consider our recommendations. Revenue increases from pro-active assets management are of particular interest because, not deriving from taxes paid to the State, they do not affect the "Gann" limits on appropriations.

For example, we estimate the State could save a minimum of $34.8 million in "occupancy costs" over three years by setting and accomplishing quite modest cost control goals. Additionally, we have identified specific land parcels currently underutilized by the State but located in prime real estate markets where their combined value is in the tens of millions of dollars. Other "surplus" properties could be sold generating hundreds of millions of dollars.

The Commission does not advocate wholesale disposition of State-owned land and buildings without regard to government's responsibility to conserve public assets for future generations. Rather, our position is that California State government has made a substantial investment in real property on behalf of California taxpayers. We believe the State has an obligation to manage this property efficiently and to produce earnings on this investment to whatever extent possible. We further believe the State must be accountable to the public for the strategic management -- not mere custody -- of real property, recognizing it as the extremely valuable asset and resource it is.

Our specific findings leading us to conclude that California's property management is not strategic include the following:

FINDING #1: State Property Management Is Accountable to No One and Is Out of Control: Organizational structure for property management is confused. The Department of General Services (DGS) is unsure whether its primary mission is control or service; consequently, it is not structured or "positioned" to meet either goal. Its confused "positioning" reflects the existing degree of decentralization of property management functions throughout State government -- despite current laws and articulated policy statements which identify DGS as the State's property manager.

Controlling costs of occupancy is currently impossible. Cost categories lack standard definition and, therefore, expenditures in these categories cannot be readily monitored.

The absence of control combined with confused definitions of responsibilities has led to overlap and duplication. The degree of staff duplication is difficult if not impossible to determine, due to: (1) inconsistencies in DGS vs. "non-DGS" job descriptions and in the quality of services available from DGS; (2) independent statutory authorization for isolated property management functions; and (3) undisciplined decentralization.

FINDING #2: Foregone Revenue on Selected Properties Reaches a Minimum of Hundreds of Millions of Dollars: In 1983, the Auditor General estimated the value of excess lands owned by only four State agencies at $164 million. Over the course of our own study, real estate consultants and brokers brought to our attention the following additional examples:

* Six acres in Thousand Oaks near the intersection of Routes 23 and 101 which have been declared "surplus" by Caltrans. Estimated market value: $200,000 to $300,000.

* Two three-acre parcels near the Route 22 entry onto 7th Street in Long Beach. Estimated market value: approximately $3 million.

* Approximately two acres on the corner of Wilshire and Sepulveda in Los Angeles, currently used as a Caltrans vehicle yard. Estimated market value: $15 million.

Because the State makes no routine effort to determine the potential sale price of State-owned property that would be appropriate to sell or lease, the number of revenue opportunities foregone and the magnitude of their dollar value are unknown. This is not surprising, given that State property managers have no structured incentives to look for such opportunities.

FINDING #3: The State's "Custodial" Management of Property Does Not Sufficiently Analyze Nor Consider Alternatives for the Highest Economic Return from Real Property: Maximizing return on investment appears to receive no consideration in the State's property management decision making. The State does not investigate leasing arrangements or restructured ownership options for appropriate properties which experts suggest could generate one-time revenues of millions of dollars.

Moreover, the State owns and uses valuable land for low economic return purposes when less costly alternatives are available. For example, the State owns land used now for State employee parking in downtown San Diego. Commercial brokers estimate this lot could be leased to private developers for $500,000 per year. State employees now pay $21.00 per month to park on this State-owned land, but more than sufficient parking space is available within a 5-block area for $25.00 per month.

A second example is found in Sacramento itself. Parcels of land surrounding Cal-Expo have become extremely valuable due to commercial development that has occurred around the fairgrounds. In January 1986, the Auditor General reported the fair market value of parcels that could be sold for $41 million or leased for approximately $4 million annually without negatively affecting the State Fair.

FINDING #4: Custodial Property Management Could Jeopardize the Value and Optimal Use of Public Buildings: To the extent "custodial" property management fails to place a high enough priority on maintenance and repair of State-owned buildings to assure that the value -- much less the safety -- of those buildings does not deteriorate, the State is engaging in short-term

cost reduction programs that could jeopardize optimal use of State-owned public buildings in the future. Although there is broadly based agreement that "deferred maintenance" has reached major proportions, the ability of the State to define a strategy for catching up with deferred maintenance while sustaining an adequate program of routine and preventive maintenance is thwarted by lack of consistency in cost category definitions and the low priority assigned to such projects in the budgetary decision making process.

FINDING #5: State Ownership of Real Property Imposes a Hidden Tax Every Year of Approximately $20 Million on Local Communities: We agree that State ownership has many advantages: building up of equity, assurance of public accessibility, and the potential for attaining better coordination of and greater efficiency in State operations, among others. When strategically managed, State property ownership can greatly benefit California's taxpayers. But, to the extent the State fails to generate earnings on its substantial real property holdings, State ownership of land and buildings in any given community imposes an unevenly distributed and significant hidden tax on local taxpayers.

FINDING #6: State Property Management Lacks Access to Essential Expertise: Real estate investment and development is one of those professional specialities whose experts generally seek success in the private rather than public sector. The freedom to negotiate, combined with the potential to earn substantial profits from a skillfully negotiated "deal" make this type of enterprise alien to the bureaucratic rules and civil service constraints required in government.

Strategic property management in State government would be concerned with forging a "public-private partnership" in which private sector specialists could be retained to provide services on the public's behalf. With respect to leasing, for example, we found that all of the State's leasing agents and space planners are based in Sacramento. We believe this arrangement fails to maximize the opportunities created by familiarity with local markets to obtain favorable lease terms for tenants.

A related problem has to do with the level of training among the staff currently responsible for managing the State's property. We found that building managers and business service officers are inadequately prepared to implement a pro-active assets management program.

STATE PROPERTY MANAGEMENT FAILS TO IDENTIFY MEASURABLE OBJECTIVES AND PROVIDE PERFORMANCE INCENTIVES FOR THEIR ACCOMPLISHMENTS

The importance of properly structured incentives to implementation of pro-active assets management cannot be overstated. Consequently, we are discouraged by the striking lack of incentives inherent in the existing State property management system. We believe this "incentives problem" is part of a larger problem, namely that there currently are no measurable objectives for State property management because there is no structure for accountability. Our conclusion regarding lack of proper incentives is based on the following findings:

FINDING #7: Bigger is Better in State Government: Private sector property managers are given an incentive to reduce occupancy costs and to maximize

economic return on their companies' investments in real property, because they can expect to share in the profits such accomplishments yield. State-employed property managers, in contrast, can benefit personally not through pro-active assets management, but by obtaining budget increases. Although budgeting is conducted in an adversarial environment, control agencies mysteriously assume managers consider it part of the job to cooperate in reducing State costs, without recognition or reward.

FINDING #8: State Employees Lack Incentives to Reduce Costs: Although there is a "suggestion program" whereby individual employees may receive proportional benefits from savings achieved through implementation of their suggestions, the annually adjusted compensation system for State employees historically has provided no reward system to encourage efficiency. In fact, reducing the cost of State operations can cost a manager a pay increase, because managerial employee level and salary are based on the number of employees one supervises rather than on performance outcomes.

The Department of Personnel Administration (DPA) in October 1985 announced a new program of offering bonuses for "managerial performance." Clearly, the Commission endorses this concept, but we believe DPA's program will fail to encourage excellence in management generally because it is not related specifically to measurable objectives. Rather, eligibility for bonuses is to be determined by the number of calendar days a manager has spent in the position being evaluated.

STATE PROPERTY MANAGEMENT IS NOT SYSTEMATIC

The ambiguity of what State government wants to accomplish in general through a property management system had led to an overdevelopment of procedures, a proliferation of forms, and indiscriminate data collection -- means of staying busy when it is not clear what is supposed to be getting done. Ambiguity prevents opportunities for State property managers to see their mistakes and correct them and/or measure their effectiveness. Lacking mechanisms for meaningful self-evaluation, State property management continues to accumulate a full complement of standard bureaucratic procedures, but falls short of becoming a system.

The findings listed below led us to conclude that State property management is not systematic:

FINDING #9: Planning in a Custodial Property Management System Resembles Planning in a Vacuum: Pro-active assets management requires strategic planning. By definition, planning is an inexact science, but a strategic management system would be concerned with setting attainable goals under conditions of uncertainty and quantifying progress made in reaching those goals. Furthermore, based on measured progress, a strategic management system would offer incentives for making the extra effort to improve accuracy.

State property management neither sets attainable goals nor makes an effort to quantify progress. As a result, it is impossible for State property managers to see mistakes they have made, for example, in projecting the State's space needs. Furthermore, it is of no consequence whether such projections are accurate or inaccurate or come anywhere close. Over a

six-year period, the State came closest to projecting actual space requirements for 1982-83, although actual need that year exceeded the projection by 75.5 percent. Having to make selections of office space at the last minute, probably in leased facilities, can reduce the number of options available and thereby increase the cost of space -- in effect, putting the State at a disadvantage in what should be a lessee's market.

FINDING #10: The State's Inventory of Real Property Is Inaccurate and Incomplete: The Department of General Services maintains an automated inventory of space which is occupied for State operations, as well as a proprietary land index (most recently updated in mid-1982). The inventory contains information which is clearly useful but incomplete; in some cases, the data appear to be either inaccurate or simply out of date.

We conducted a survey of State departments occupying 50,000 square feet or more of office space in 1984-85. Out of 111 possible comparisons with DGS's data, there were only seven instances -- 6.3 percent of all data cells -- in which the figures reported by individual departments were the same as those which appear in DGS's inventory. Four of those seven were agreements on a "zero" response. Table A-1 in Appendix A provides a detailed comparison.

FINDING #11: Automated Data Processing Is Not Utilized Systematically for State Property Management: The State underutilizes its existing automated data processing (ADP) capabilities in at least three ways. First, the distribution and use of ADP resources are uneven and uncoordinated: based on responses of the surveyed departments, we conclude existing ADP systems decentralized to property managers at the department level do not "talk to each other," obstructing the development and maintenance of a comprehensive and accurate inventory.

Second, applications of ADP capabilities are unrelated to property management objectives: the State collects an impressive quantity of data pertaining to operating and overhead costs for public buildings but fails to use the data to improve accuracy in budgeting or to compare performance with objectives.

Finally, priorities for ADP utilization appear not to have been determined: we found errors of addition in DGS's cost analysis for building operations. The errors were significant because they made the difference between being able to see that, instead of declining by half a million dollars, costs had actually increased by that amount. The type of error detected was clearly the result of analyzing massive amounts of cost data using a calculator rather than an electronic spreadsheet.

FINDING #12: Management of "Space Action Requests" Is Unwieldy and Slow: The Commission conducted a case study of "Space Action Requests," drawing a random sample from DGS's file of completed transactions over a two-year period (see Appendix B of the report for a detailed description of findings and methodology). The case study led to conclude that (1) internal documentation is unwieldly; (2) the Office of Space Management lacks an effective project management system; and (3) processing time is slow.

RECOMMENDATIONS

A. Authorize Pro-Active Assets Management Pilot Project

We recommend implementation of a pilot project to (1) develop the parameters of an information base needed for pro-active assets management, and (2) produce an estimate of the "opportunity cost" (cost of inaction) of maintaining in its present use all State-owned property within the designated pilot project area.

The Department of General Services should have overall responsibility for selecting the consultant and administering the pilot project. The consultant's responsibilities should include:

1. Development of an information base appropriate for pro-active assets management

2. Identification of "segments" for State-owned property and their order of priority for disposition on the basis of specified criteria

3. Cost-benefit analysis of alternatives for selling, exchanging, or re-structuring ownership of land and/or buildings owned by the State

4. Identification of options for generating revenue on the State's real property

5. Proposal for a model pro-active assets management system within State government, including cost control and performance incentive structures for meeting recommended strategic goals

6. Assessment of bureaucratic resistance to pro-active assets management

7. Analysis of current State and Federal laws pertaining to public sector pro-active assets management

8. Analysis of public policy implications of public sector pro-active assets management

B. Structure Organizational Accountability

We recommend that the Governor and Legislature cooperate to adopt an organizational structure for State property management which establishes mechanisms designed to assure accountability of decision making. The new structure should be characterized by:

1. Centralization of policy development in the Department of General Services

2. Decentralization of operational planning in the 14 property-owning departments other than DGS but with the participation and assistance of DGS and, ultimately, with DGS's approval of individual departments' operational plans

3. Publication of an annual report on property management accomplishments

4. Coordination of automated data processing

C. Structure Performance Incentives to Be Related to Measurable Objectives

We recommend that the Governor direct the Departments of Finance, General Services, and Personnel Administration to develop guidelines for awarding incentive pay to State property managers. We recommend that these guidelines and eligibility for incentive pay apply only to property managers in the Department of General Services and the 14 other property-owning departments.

D. Reduce Staff Duplication

We recommend that the Governor ask the Director of Finance to analyze the current staffing level for property management in State government.

E. Create Central Automated Inventory of Real Property Occupied for State Operations

We recommend that the Governor and Legislature adopt budget control language in the Budget Act of 1986 to require the Department of General Services to develop by December 15, 1986, a plan for completing a central automated inventory of State-owned and State-occupied property.

F. Increase Efficiency of Processing "Space Action Requests"

We recommend that, in order to increase efficiency of processing "Space Action Requests," the Department of General Services identify and delete non-essential data, simplify flow of documents, design data summary forms appropriate for interface with automated information systems to assure timely data storage and retrieval, and set strategic goals for lease management.

G. Train State Property Managers

We recommend that both building managers and business service officers be required to complete the Building Owners and Managers Association's training course and receive designation as Real Property Administrators in order to be eligible for promotion to, or retention in, supervisory positions in either civil service classification. We further recommend that the State Personnel Development Center analyze the additional property management training needs of State building managers and business service officers and develop a curriculum and class schedule for these civil service classifications to be offered in State fiscal year 1986-7 and thereafter.

H. Establish Master Contracts Process for Special Services

We recommend that the Department of General Services establish a bidding process to select in multiple areas around the State special services contractors who pre-qualify under the terms of a master contract. Separate master contracts should be executed to obtain at least but not limited to the following services:

* Emergency building repairs

* Lease brokerage

* Real estate market analysis

I. Report Value of and Income From State's Property in the Governor's Budget

We recommend that the Governor direct the Department of Finance to report in the annual Governor's Budget the estimated value of property owned by the State and current revenue derived from State ownership -- as such information becomes available -- both for the State as a whole and for individual departments.

Chapter 1

INTRODUCTION

The Commission on California State Government Organization and Economy -- commonly referred to as the "Little Hoover Commission" -- is committed to improving State government operations through improved organization, management, and efficiency. Since it was established in 1962, it has presented to the Governor and Legislature hundreds of recommendations which have led to improved management efficiency, substantial savings, and increased revenues.

In July 1985, the Commission initiated a major study of the State's management of real property modeled after President Reagan's Special Commission on Government Efficiency chaired by Mr. Peter Grace, Chairman of the Board of the W.R. Grace Corporation. The President's Commission studied how to control costs in the federal government, including the Federal government's management of its real property. In general, that study concluded that the Federal government's approach to managing real property was antiquated and, consequently, was wasting literally billions of dollars. Specifically, the Grace Commission's Property Management Task Force, which was co-chaired by Nathan Shapell, found inefficient management of enormous proportions in the areas of space utilization, building maintenance, and lease negotiations. Additionally, the Task Force found that the Federal government employs an excessive number of personnel to manage real property. The members of the Little Hoover Commission decided that a similar study of California's State property management program could identify corresponding areas of inefficient management, thereby generating potentially millions of dollars in savings and new revenues.

BACKGROUND

As one might expect, the State of California leases, owns, and manages enormous property holdings. Overall, the State utilizes more than 65 million gross square feet of space spread throughout more than 10,000 buildings (these figures exclude the university systems). Additionally, the State owns more than six million acres of land. Simply put, the State of California is one of the largest property owners and managers in the nation. Although the State has not assessed the value of its properties, the Department of General Services has provided a conservative estimate of the replacement value of the State's real property at $1.35 billion. This estimate does not allow for appreciated value, however, and, as an estimate of replacement costs, excludes the value of land parcels on which existing structures now stand. Therefore, we believe that a still-conservative estimate of the total value of all State-owned real property (excluding the university systems) would be well over $2 billion.

Responsibility for Managing Property: In California, the Department of General Services (DGS) has been given primary responsibility for managing the single largest holdings of the State's real property. A number of other State agencies, however, have either been delegated or have assumed responsibilities for conducting the management of real property on their own, possibly resulting in unnecessary and costly duplication that this report will address.

Department of General Services: The Department of General Services was created for the purpose of providing centralized property management services including, but not limited to, the planning, acquisition, construction, maintenance, and security of State buildings and property. The Director may acquire buildings and real property in the name of the State whenever authorized by the Legislature, but the Department of General Services is not the exclusive State agency for acquiring real property. Many other agencies also have that authority.

For the most part, State property under the Department of General Services' control and jurisdiction is non-institutional space: multi-tenant general purpose office buildings and supporting facilities such as parking structures and warehouses. Institutional facilities such as prisons, hospitals, and colleges are usually acquired or constructed for a special or single purpose, occupied by a single agency, and administered and maintained by that agency.

The Department owns or controls office facilities in every major city in California. In addition to acquiring and constructing these facilities, the Department also may have the responsibility for maintaining these facilities and their adjacent grounds.

The Real Estate and Building (REB) Division of the State Department of General Services consists of the following subdivisions (the budget and personnel years shown for each pertain to fiscal year 1984-85):

TABLE I-1

Department of General Services
Real Estate and Buildings Division
Budget and Personnel Years
1984-85

	Total Budget	Personnel Years
* Office of Buildings and Grounds	$ 49,484,000	1,288.2
* Office of Energy Assessment	3,030,000	10.5
* Office of Facilities Development and Planning	986,000	14.2
* Office of Real Estate Services	3,849,000	58.2
* Office of Space Management	3,494,000	66.3
* Office of the State Architect	16,363,000	262.4
* Building Rental Account	38,718,000	---
TOTAL	$115,924,000	1,699.8

Source: Governor's Budget for 1985-86

These units serve the majority of other State departments and agencies in performing a range of property management functions -- from designing new facilities to managing lease negotiations. The REB subdivisions perform such varied activities as architectural programming and construction management; capital outlay budgeting; real estate appraisal, acquisition, sales, and by-State leasing; energy conservation programming; and building maintenance. An organizational chart of the REB is shown on the next page.

Employees from virtually every State agency are housed in General Services' office buildings: approximately 35,400 employees currently. Another 46,000 employees are located in privately-owned facilities leased by the Department of General Services. An agency or particular office requesting space in a State-controlled building must have certain compatible characteristics which lend themselves to occupancy of office buildings. These buildings usually house multiple tenants and are usually multi-storied.

DEPARTMENT OF GENERAL SERVICES

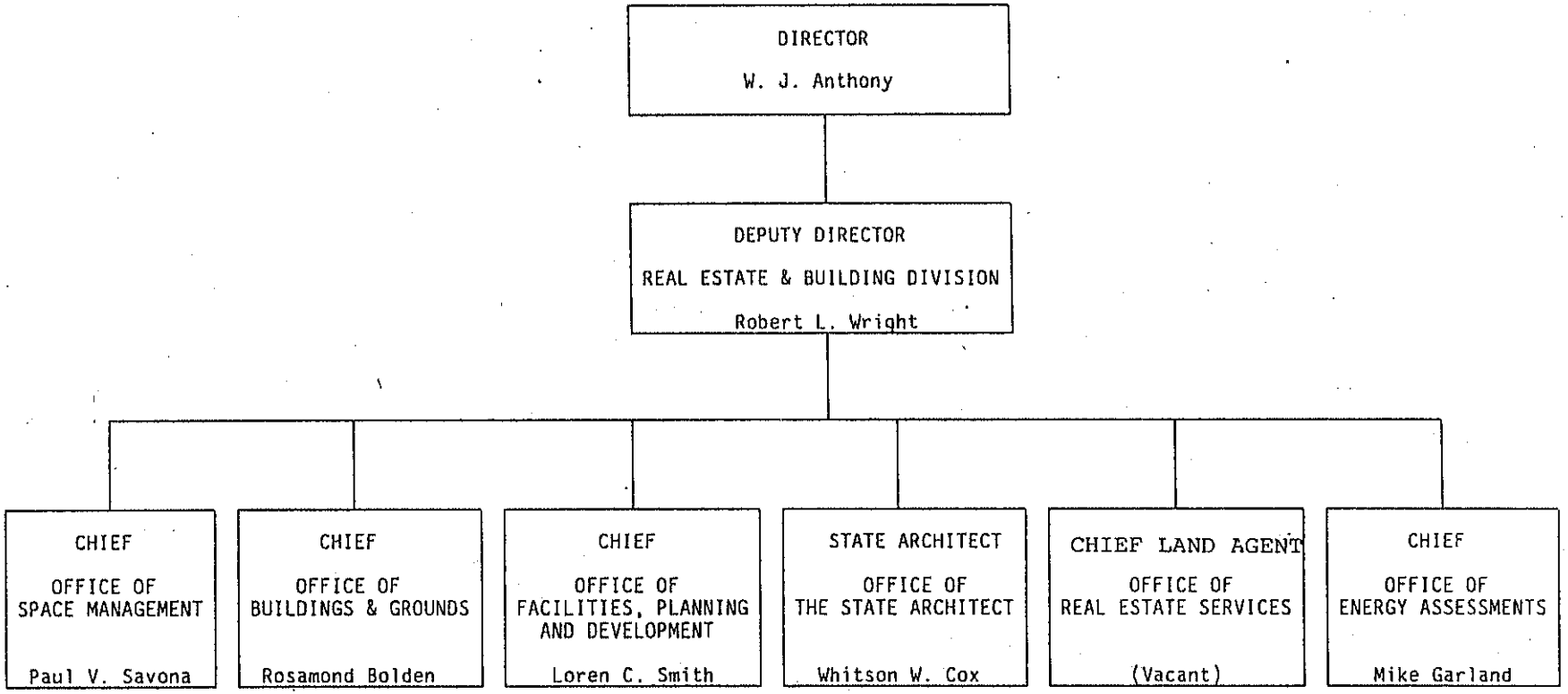

Figure 1-1

NOTE: Organization changes are currently being considered

March 7, 1986

In order to determine the types of offices which are compatible with the concept of a general office complex, the Department determines that one or more of the following factors apply:

1. The office develops and administers governmental policies, programs, and broad principles of operation. These are characteristics of regional or headquarters type offices.

2. The office is of a regulatory or adjudicatory nature, requiring uniformity of policy and timeliness in dispensing rights and/or penalties.

3. The office requires close coordination, working relationships or communications with other State agencies, federal agencies, or local government.

4. The office disseminates information and/or non-clinical assistance to the public at large and requires easy identification by its clientele.

5. The office can share special purpose rooms, duplicating equipment, an auditorium, training facilities, and other equipment with adjacent offices without disrupting their respective programs.

6. The office has a business nature, that is, it performs functions such as auditing, accounting, budgeting, printing or related activities and does not have to be located in any specific area.

Offices or agencies that do not meet one of the above criteria are generally located in a leased facility. In addition to office facilities, the Department of General Services has control and jurisdiction over warehouses, records centers, garages, and a printing plant.

General Condition of Real Property: The age of State-owned office buildings ranges from recently constructed facilities to Office Building No. 1 and the Library and Court Building, both of which were constructed in 1925. While a fifty-year life is used for economic analyses, it is fair to say that, given the past and proposed maintenance programs, the existing State office buildings should last for at least another fifty years and probably much longer. No doubt, electrical systems and heating, ventilating, and air conditioning systems will have to be repaired. The basic structures, on the other hand, are in excellent condition and should remain so for the foreseeable future. In many of Europe's leading cities, it is not uncommon to see still in use office buildings which were constructed in the 16th and 17th centuries.

Generally, garages and warehouses are in comparably good condition. This is true at least for those warehouses constructed of reinforced concrete or tilt-up concrete slabs. All garages are constructed of reinforced concrete.

Leased Facilities: As indicated above, in the event State-owned office facilities are neither available nor compatible with the proposed tenant agency, leased facilities are provided. The Department of General Services now leases approximately 7.9 million square feet of office space and 2.7 million square feet of warehouse space for a total of approximately 10.6 million square feet.

The Department of General Services has a general policy of using competitive bidding to secure leased space in all instances where the lease rate exceeds $7,500.00 per month (SAM Section 1436), unless there are extenuating circumstances which indicate it is clearly in the State's best interest to negotiate directly. Notification to the Legislature of proposed leases is subject to the provisions of Section 1332.10 of the Government Code.

Before the State occupies a leased facility, all appropriate State laws must be satisfied. The facility must:

- Satisfy the California Environmental Quality Act of 1970 (CEQA);
- Meet all applicable regulations of the State Department of Industrial Safety and Health Services, the Occupational Safety and Health Act, and local building and fire codes;
- Meet the State Architect's regulations on provisions for the physically handicapped, if the space to be leased exceeds 50 percent of the total building and the full term of the lease exceeds two years; and
- Meet the provisions of Section 15808.1 of the Government Code in regard to location within established public transportation corridors.

The cost of leasing has become an increasingly significant factor in the operation of all State agencies. The cost of office space is related to supply and demand, interest rates, and construction costs. Thus, during the late seventies and early eighties, the State experienced an unparalleled rise in rental expenses. Today, however, an oversupply of office space provides the State the opportunity to negotiate excellent terms and conditions in a lease. Many experts believe this "lessee" market will continue for at least the next two to three years.

State-owned Rental Rate: The current rate to tenant agencies in State-owned office buildings is $.70/square foot. Obviously, this is considerably less than rental rates for comparable office space in the private sector. For example, similar quality office space in Sacramento, Los Angeles and San Francisco ranges from $1.10/sq.ft. to $2.50/sq.ft. However, as this report will discuss, the State rental rate does not generate an amount sufficient to cover all maintenance costs or utilities and therefore is not a true indicator of actual costs.

The "Building Rental Account" is an account in the Service Revolving Fund to record income and expense in the operation of buildings. Section 16420, Government Code, established the Service Revolving Fund in the State Treasury. Section 11290 (b), Government Code, provides the Department

authority to fix and collect rent for use or occupancy of space in any building owned, managed, or controlled by the State and used by a State agency in carrying out its work. Section 16421 (d), Government Code, provides for the money received as payment of rent to be deposited in the Service Revolving Fund. Section 16422, Government Code, states the Fund is available for expenditures for payment of rent and the cost of maintaining, operating, and insuring the building space.

Factors which are included as a basis for this rent calculation are:

Buildings and Grounds Maintenance
Alteration
Heating and Cooling
Interest and Depreciation
Rent to State Public Works Board -- PBCF Buildings
Rent to Orange County Civic Center
Santa Ana Insurance
Office of Facilities Planning and Development

As additional buildings are opened, such as the new San Francisco State Office Building, the annual costs for bond coupons for these buildings will be included in the State building rental rate. Thus, in the future, lacking additional capital outlay, the building rental rate will increase. For example, the proposed San Francisco State Office Building alone will increase the building rental rate between 10-12 cents per square foot.

State Management of Land: California State government owns over six million acres of land. Approximately 1.6 million acres are under the jurisdiction of State agencies that acquired this land for the operation of their State programs. Although State agencies within the Resources Agency control nearly 92 percent of this land, the Department of Transportation has extensive land holdings (more than 27,000 acres) related to its construction of highways (See Table I-2).

Similar to its management of buildings, the Department of General Services is responsible for acquiring, managing, and disposing of land for State agencies. In acquiring land for the State, the Department assists agencies in selecting sites for State facilities, appraises the value of the land to be purchased, and negotiates the purchase.

The Department also manages and disposes of land that the Legislature has designated "surplus land:" land the State does not need. The California Government Code provides for the disposal of excess land by making it available for transfer to other agencies, for sale to other government entities, or for sale to the general public. According to Section 11011 et seq. of the code, each agency "shall review all State lands over which it has jurisdiction and report to the Department land that is in excess of the agency's foreseeable needs."

TABLE I-2

State Land Controlled By State Agencies*

Agency	Acres	Percent of Total Acres
Resources Agency		
Department of Parks and Recreation	1,126,022	69.5
Department of Fish and Game	219,684	13.6
Department of Forestry	76,785	4.7
Department of Water Resources	65,694	4.1
Other Resources Agencies	271	00.0**
Subtotal	1,488,456	91.9
University of California	53,115	3.3
Department of Transportation	27,005	1.7
California State University	15,595	1.0
Department of Corrections	9,885	0.6
Department of Developmental Services	6,352	0.4
Department of Veterans Affairs	2,228	0.1
Nineteen Other Agencies	16,679	1.0
Subtotal	130,859	8.1
Total Acres	1,619,315	100.0

* Table does not include approximately 4.6 million acres of land managed by the State Lands Commission (including tidelands, submerged lands, and other lands granted to the State at the time of Statehood) and approximately 10,000 acres of land endowed to the University of California.

** Percentage is less than 0.1.

Source: Office of the Auditor General, California Could Earn Millions of Dollars from Better Management of Its Excess Land, Report no. P-306 (December 1983), 2.

Based on these reports, the Department submits an annual report to the Legislature identifying land that should be designated and sold as surplus. The Legislature and Governor, through legislation, approve the actual disposal.

Property Management in Other Departments: Although the Department of General Services has primary statutory authority and responsibility to perform real property management functions, fourteen (14) State departments with unusually high volumes of real estate transactions perform these functions on a decentralized basis. These include architectural services, engineering services, space planning and alterations, appraisals, real estate acquisition and sales, and lease negotiations and management. The 14 are the departments of:

Corrections	Fish and Game
Parks and Recreation	Food and Agriculture
Transportation	Forestry
Water Resources	Motor Vehicles
Boating and Waterways	Mental Health
Developmental Services	Veterans' Affairs
Employment Development	Youth Authority

Besides the Department of General Services, current statutory responsibilities and authority for real property management are delegated to the Departments of Corrections, Parks and Recreation, Transportation, and Water Resources. The other ten (10) departments do not have specific statutory authority for property management activities. These departments do perform the various property management functions we listed, however, and have received funding for these activities through the annual Budget Act.

There are a total of 968.1 property management positions (excluding clerical support) in the fourteen departments with decentralized activities. Of this total, 908 positions, or 94 percent, perform property management activities in the departments with specific statutory authority for real property management. The remaining 60.1 positions are in the ten departments lacking specific statutory authority for property management.

SCOPE AND METHODOLOGY

In July 1985, Commission Chairman Nathan Shapell appointed a study subcommittee consisting of Commissioners James Bouskos, Albert Gersten, and Haig Mardikian to oversee a review of the State of California's management of its real property holdings. The subcommittee, acting on behalf of the Commission, retained two consultants to assist the staff and members with the study. The Sacramento consulting firm of Troubleshooters was selected for its broad understanding of State operations and for its competence in policy and operational analysis. Mr. Michel Anderson, a property and land use consultant who had worked on the Grace Commission Real Property Management Task Force, was retained to provide critical expertise on technical matters.

To develop a focus for the report, the subcommittee and consultants sought to analyze the real property management operations of the Department of General Services and fourteen major departments which are statutorily authorized to own property (the study excluded, for the most part, the university systems). The study evaluates the overall organization of responsibilities, methods of managing property, use of resources, adequacy of information, and assumptions used regarding the use, retention, and possible disposition of real property holdings.

In order to conduct this analysis, the Commission drew upon the private sector for models of real property management, comparing organizational structure, systems, and methods. The following companies contributed their time, assistance, expertise, and information to the Commission and consultants:

Wells Fargo Bank	Coldwell Banker
AT&T Corporation	Grubb & Ellis
Northrop Corporation	Iliff-Thorn
TransAmerica Corporation	Swimmer, Cole, Martinez,
Trammel Crow	Curtis Interior Design
Arthur Andersen and Company	Walsh & Chacon
AMB Investments	

As part of the research effort, the Commission held two public hearings on the subject of the State's management of real property. At the first hearing, held in Los Angeles in late August, the Commission heard testimony from a former member of the Grace Commission's Task Force on Real Property, the Director of General Services, and several managers within the Department. Also giving testimony at the first hearing were members of the private sector, including a space designer and several commercial brokers.

The second public hearing was held in San Francisco in late October and included testimony from both consultants, the Director of General Services and other managers within the Department, a panel of representatives from private corporations who discussed their companies' property management strategies, a panel of representatives from State agencies who are responsible for their own real property management needs (separate and apart from DGS), and a panel of representatives who discussed energy conservation in State structures.

The consultants conducted interviews with State employees assigned the responsibility of managing their agencies' property needs. Supervisors of State buildings and staff from the Offices of Facilities Planning and Development, Space Management, and the State Architect were interviewed. The Commissioners, consultants, and staff also met with many private sector professionals, including managers of real property, brokers, space planners, and building managers.

Chapter II

PROPERTY MANAGEMENT IN STATE GOVERNMENT IS NEITHER STRATEGIC NOR SYSTEMATIC AND LACKS PERFORMANCE INCENTIVES

Unlike private industry, California State government approaches management of its substantial holdings of real property neither strategically nor systematically. Furthermore, the entire system lacks performance incentives. Mitigating these problems will require major realignments of public policy to establish "pro-active" rather than "custodial" management of State-owned land and buildings. Our Commission believes such changes will not only increase the efficiency of the system for managing the State's real property, but will generate millions of dollars in savings and new revenues.

A. STATE PROPERTY MANAGEMENT IS NOT STRATEGIC

Property management in State government is premised on keeping what we have and adding to it as capital outlay funds become available (through a variety of financing mechanisms). This "custodial" approach fails to capture the revenue-potential benefits of property ownership. In short, it is not strategic.

"Pro-active assets management" -- or "PAM" -- is a phrase we have coined to describe a property management system devised to maximize the benefits of property ownership: an approach many private firms take to managing their properties. The basic premise of PAM is that real property has exchange value as well as present use value. Furthermore, PAM recognizes that the present use or exchange value of real property can be increased, maintained, or diminished, depending on (a) market conditions, and (b) the availability of resources to invest in increasing or maintaining present value.

In interviews with State employees, we found that property managers in State government tend to view State-owned lands and buildings as permanent fixtures whose value apart from their present use is unknown and irrelevant. Very likely, State property managers are unaware of the market value of the State-owned land and buildings they occupy because they rarely have either opportunity or incentive to consider finding more suitable and/or cost effective locations in which to conduct State operations. As a result, we believe the State misses substantial savings and revenue opportunities.

Custodial property management can meet an organization's basic needs for space -- provided the organization's needs for types or sizes of space do not change and provided the cost of inefficient space utilization can be absorbed within the organization's budgetary "slack." The custodial approach fails, however, to treat space as a resource that can be managed in such a way as to reduce costs and generate revenue.

The policy implications of PAM derive from the potential magnitude of reduced costs and increased revenues. It is not unreasonable to project, for example, that the State could reduce its "occupancy costs" by more than $30 million over three years. Defining "occupancy costs" as the sum total of the "Facilities Operation" plus "Utilities" line items in the Governor's Budget for all State departments and offices (excluding the university systems), we know the State's actual occupancy cost in 1984-5 was at least $386.8 million [Governor's Budget for 1986-7]. Treating that figure as a base line, we estimate the State could save $9.7 million in the first year of a pro-active assets management cost reduction program if its target were only a 2.5 percent reduction. If the baseline occupancy cost were reduced 3 percent in the second year and 3.5 percent in the third year, total savings would be $34.8 million over three years. However, because the State's management of its property is neither strategic nor systematic and lacks incentives, no one "manages" this cost by setting reasonable, obtainable objectives for reducing the occupancy cost.

Confronted with competing demands for State funding, along with Gann spending limitations and proposed new Federal spending cuts, we believe the Governor and Legislature should determine whether carefully invested earnings from pro-active management of State-owned real property could represent an unused and previously overlooked source of significant revenue.

FINDING #1: State Property Management Is Accountable to No One and Is Out of Control

Confusion over whether control or service is the Department of General Services' foremost mission has inhibited the development of procedures designed to assure accountability. Moreover, the failure to distinguish between control and service has exacerbated the additional confusion over centralization and decentralization. Although the prevailing perception both in the Department of General Services and throughout the rest of State government is that DGS is the designated property manager for the State, the evidence shows that State property management is now significantly decentralized. Because the State lacks mechanisms to assure accountability for either control or service and has not determined by design which property management functions should be centralized or which should be decentralized, the present degree of decentralization suggests that property management in State government is out of control -- that is, no department or group of staff is clearly "in charge."

Lacking clarification of these critical organizational issues, it is impossible to determine, for example, whether the existing staffing level for State property management is adequate or duplicative. Moreover, there is no central accounting of costs and, therefore, no central direction for their control and reduction. And, as we will discuss later, there is not even a central accounting or inventorying of the properties owned and leased. As a result, the State does not know how much it spends in support of these billions of dollars in assets, nor exactly what it owns and occupies.

Control vs. Service

Whether in public or private sector organizations, the first obligation of on-staff property managers should be to CONTROL costs and increase earnings -- that is, to keep occupancy a manageable portion of the overall costs of operations and to maximize return on the organization's real property investments and holdings. Money saved in the occupancy cost category and earned -- either as profit on sales or as interest on investments -- enhances profit in the private sector and makes funding available for programs in the public sector.

The SERVICE aspects of property management have to do with "suitability" concerns which include such considerations as:

* Site selection, to maximize:
  - good working conditions that will contribute to high levels of productivity and employee morale; and
  - convenience of location and availability of public transportation and/or parking -- for employees and/or the public.
* Space planning, to maximize:
  - operational efficiency (including work team proximity and common space needs, room and equipment for computers, energy use); and
  - employee preferences for open landscaping (in offices), private and comfortable research space, conference rooms, lunch rooms, and natural light (among others).

In general, the private sector tends to keep control distinct from service by hiring staff to impose standards and administer controls while contracting with consultants and specialists to provide services -- within the ranges set by staff. Through various bonus and profit-sharing mechanisms, private firms give their property managers incentives to be cost conscious on the one hand and, on the other, to be alert to opportunities for increasing income through pro-active management of real property owned by the firms.

In State property management, accountability is not clearly assigned for either control or service. If the separation of these functions in State property management were analogous to private sector property management, all business service officers would be supported by their department directors in imposing standards and administering controls at the department level. The departments would then pay DGS for services such as lease management and space utilization analysis on a fee-for-service basis. Instead, a lack of discipline has evolved at the department level. DGS staff report that department directors and business service officers, reluctant to impose space allocation standards themselves, ask DGS to do it for them. By making control the responsibility of DGS, these directors and BSOs abdicate their own authority. By accepting this role, DGS has come to think of control as a "service" for which it charges client departments.

Ownership Is Already Decentralized

As we have noted, DGS is widely perceived to be the State's designated property owner and manager. Yet, the actual dimensions of DGS's control show that ownership is already significantly decentralized. Excluding property owned by the university systems (see Table II-3), DGS owns only 16.8 percent of all gross square feet of space owned by the State and only 2.2 percent of all buildings (see Table II-2).

Given this ownership configuration, it is clear that some undetermined number of property managers is needed in the 14 other property-owning departments. The existing custodial property management system, however, fails to consider the impact of this degree of decentralization on the State's overall property management capacity. That is, no apparent effort has been made to structure accountability to reflect this reality or to use incentives tied to strategic property management goals in order to gain control over property management costs and decision making.

TABLE II-1

State-Owned Office Space
EXCLUDING University Systems
As of December 31, 1985

	All State-Owned	DGS-Owned Only	
	Total Net Square Feet	Total Net Square Feet	Percent
Sacramento	4,303,027	3,514,738	81.7%
Balance of State	3,976,107	2,329,727	58.6%
TOTAL	8,279,134	5,844,465	70.6%

Source: Department of General Services
Office of Facilities Planning
and Development

Table II-1 shows that DGS is the major owner of office space for State operations; excluding office space owned by the university systems, the Department owns 81.7 percent of all State-owned office space in Sacramento and 58.6 percent throughout the rest of the State. DGS owns 5.8 million net square feet of office space Statewide: 70.6 percent of the total.

TABLE II-2

Total State-Owned Space
EXCLUDING University Systems

	Gross Square Feet[a]	Percent	Buildings[b]	Percent
Other State Agencies	54,096,276[c]	83.2%	10,272[c]	97.8%
Department of General Services	10,903,724	16.8	228	2.2
TOTALS	65,000,000[c]	100.0%	10,500[c]	100.0%

Notes: [a] "Gross Square Feet" refers to all space within buildings.

[b] "Buildings" is a broad category including office buildings, but also including structures ranging from institutions such as prisons, State hospitals, and scientific research laboratories to ranger stations and highway equipment storage sheds.

[c] Estimated

Source: Department of General Services
Office of Facilities Planning
and Development

As shown in Table II-2, of all types of State-owned space -- that is, including but not limited to office space and, again, excluding property owned by the university systems -- DGS owns and manages only 16.8 percent of total gross square feet and only 2.2 percent of all buildings. Other State departments own and manage the rest.

TABLE II-3

Total State-Owned Space
INCLUDING University Systems

	Gross Square Feet[a]	Percent	Buildings[b]	Percent
University of California	60,000,000[c]	37.5%	3,300[c]	22.0%
California State University	35,000,000[c]	21.9	1,200	8.0
Other State Agencies	54,096,276[c]	33.8	10,272[c]	68.5
Department of General Services	10,903,724	6.8	228	1.5
TOTALS	160,000,000[c]	100.0%	15,000[c]	100.0%

Notes: [a] "Gross Square Feet" refers to all space within buildings.

[b] "Buildings" is a broad category including office buildings, but also including structures ranging from institutions such as prisons, State hospitals, and scientific research laboratories to ranger stations and highway equipment storage sheds.

[c] Estimated

Source: Department of General Services
Office of Facilities Planning
and Development

Table II-3 shows that, when property owned by the university systems is counted, DGS owns and manages only 6.8 percent of all State-owned gross square feet and only 1.5 percent of all State-owned buildings.

Current Confused Structure of Responsibilities Results in Little or No Accountability for Cost Control

It is virtually impossible to determine how much the State spends each year in support of its billions of dollars in property assets. As a result, no one in the State knows how efficient or ineffecient our property management really is, nor where to focus attention to improve overall performance. During the course of our study, we asked various officials how much the State spends on rent, maintenance, utilities, alterations, and other aspects of property management. No one could answer. The decentralized system and inconsistent

methods of budgeting make calculating a total cost impossible. Furthermore, the "custodial" approach to property management results in having few people who are even asking how we can cut costs and enhance revenues.

According to the Governor's Budget for 1986-87, the State (excluding university systems) spent $386.8 million in 1984-85 for facilities operations and utilities -- or what we are calling in this report "occupancy costs." It is germane to the thrust of this section of the report to point out that we ourselves had to add all the "Facilities Operation" and "Utilities" line items in order to arrive at this $386.8 million estimate of total occupancy costs. And yet, this does not equate to the "total" cost of occupancy.

In State property management, due to confused expenditure definitions, we are uncertain how to evaluate the accuracy of cost estimates which are fundamental to, and required for, pro-active assets management. For example, given that the State occupies approximately 65 million square feet of space in buildings, we believe that our total occupancy cost estimate of $386.8 million is incorrect and must be substantially understated, because this amount would translate into an average of less than $0.50 per square foot per month to rent or reduce debt on, manage, heat, cool, light, clean, repair, and otherwise pay for State occupancy in buildings statewide.

Departments vary in how they budget for maintenance and repair, janitorial, and groundskeeping services -- as only one example. In some cases, funds from the "Consultant and Professional Services -- External" line item in the Governor's Budget are very possibly being used to cover such costs, as well as other occupancy costs (such as alterations). To the extent this is the case, our estimate of $386.8 million -- which also excludes special repairs, capital outlay (including alterations), and most labor and management costs -- would be too low to reflect true occupancy costs.

The Legislative Analyst's Analysis of the Budget Bill for 1985-86, in a general discussion of infrastructure maintenance, stated that:

> "...it is difficult, at best, to identify in the budget those funds that are proposed for maintenance, special repairs, and other infrastructure-related items. Although these funds are separately displayed in the budgets for the University of California and the California State University, for most other departments they are simply lumped together in a single line item -- "facility operations" -- which includes funds for utilities and other costs that are not directly related to maintenance of infrastructure." [The 1985-86 Budget: Perspectives and Issues, Page 173]

The point is that the existing confused structure of responsibility manifests itself in ways that prevent the State from implementing effective cost controls. Although agencies such as the Department of Finance and General Services -- the so-called "control agencies" -- claim to be imposing standards and monitoring expenditures, the fact is that the State neither defines nor tracks most property management costs and therefore could not possibly be accounting consistently or accurately for expenditures in these categories.

Decentralized Maintenance Arrangements Confuse Estimates of Total Costs

Several possibilities exist for structuring how maintenance and repair, janitorial, and groundskeeping services are provided in State occupied space. The table below indicates by the variety of existing configurations the degree to which control is currently decentralized:

TABLE II-4

Variations in Providing Maintenance and Repair, Janitorial, and Groundskeeping Services In State-Occupied Space

	DGS Employees	Other Dept.s' Employees	Personal Services Contractors	Lessors' Contractors or Employees
Other Dept.s Occupying DGS-Owned Space	X	X	X	
Other Dept.s Occupying Space They Own	X	X	X	
Other Dept.s Occupying Leased Space	X	X	X	X

Although the rent State departments pay to occupy space in State-owned buildings includes "utilities, building and ground maintenance, alterations, insurance, facilities planning, and depreciation costs" [DGS memorandum to Little Hoover Commission], Table II-4 reveals that the options available for securing maintenance services make "double-budgeting" for these costs a distinct possibility and/or make the rental rate for occupancy in State-owned buildings artificially low -- that is, not reflective of true costs.

In a survey we conducted of State departments currently occupying 50,000 square feet or more of office space (see Appendix A for a summary of the responses), we asked for information regarding expenditure levels for maintenance and repairs, janitorial, and groundskeeping services. The percentage of total costs controlled directly by DGS -- 54.8 percent of total costs reported by responding departments -- again indicates that this particular property management function is already significantly decentralized. Table II-5 suggests that the departments who responded to our survey are spending more than $30 million over and above what they pay in rent for maintenance and repairs, janitorial, and groundskeeping services.

TABLE II-5

Amounts Budgeted for Maintenance and Repairs, Janitorial, and Groundskeeping Services State Fiscal Year 1984-5

	Amount	Percent
All Other Departments	$30,413,280[a]	45.2%
Department of General Services	36,818,089	54.8
TOTAL	$67,231,369	100.0%

Notes: [a] This figure, which excludes costs covered in lease payments, represents total expenditure levels reported by all responding departments (except General Services, which was included in the survey and did respond). Of 45 departments surveyed, 37 (or 82.2 percent) responded. This sum would increase by the amounts unreported by non-responding departments, thereby further decreasing the percentage of total budget represented by DGS's 1984-5 expenditure level.

Source: Little Hoover Commission Survey of State Departments Occupying 50,000 Square Feet or More of Office Space in 1984-85

The Commission feels that with adequate accountability and incentives for enforcing controls, decentralization of property management responsibilities can be efficient. We question whether this is the case with respect to

maintenance and repair, janitorial, and groundskeeping services, however, given that the expenditure data presented in Table II-5 were not available except through a survey of departments.

Lack of Organizational Accountability Encourages Staff Duplication

Various offices within the Real Estate and Building Division of the Department of General Services occasionally express concern that other departments have established positions which duplicate staff in DGS. The Office of the State Architect (OSA) notes, for example, that architectural and engineering positions have been added in several units of government since the mid-1960's -- during which time expansion of OSA staff was prohibited. OSA comments: "It is obvious that there are at least seven other offices that function as lesser State Architect's offices without the control, authority, or professional status of OSA...."

Table II-6 shows that architectural and engineering (A/E) aspects of property management in State government are at present significantly decentralized: only 53.6 percent of all A/E personnel years are established in the Department of General Services. While decentralization itself is not unmanageable, the confusion over who is accountable for control and who for services makes the existing staffing configuration, at a minimum, appear duplicative. This staffing confusion represents another instance in support of our conclusion that property management in State government is out of control due to the State's having no overall strategy.

TABLE II-6

Architectural and Engineering Personnel Years
State Fiscal Year 1983-4

	Number PY's	Percent of Total
Office of State Architect	190.0	44.3%
DGS/Space Management	26.7	6.2
DGS/Facilities Planning & Dev.	13.3	3.1
GENERAL SERVICES SUBTOTAL	[230.0]	[53.6]
Other Departments:		
Parks and Recreation	80.0	18.7
Water Rources	46.0	10.7
Transportion	30.0	7.0
Corrections	18.0	4.2
Office of Statwide Health Planning & Development	15.0	3.5
Boating and Waterways	10.0	2.3
OTHER DEPT.S SUBTOTAL	[199.0]	[46.4]
TOTAL	429.0	100.0%

Source: Department of General Services
Office of the State Architect

Another example of staffing confusion involves the Office of Space Management (OSM) in DGS's Real Estate and Buildings Division. In a report prepared for top management, OSM observed that certain agencies with field and regional operations as well as headquarters staff "invariably duplicate OSM activities." We found in our review of the Department of Personnel Administration's (DPA's) job specifications for the "business service officer" series, however, that business service officers are required to perform the very activities DGS objects to.

Activities for Which OSM Assumes It Is Responsible	Job Specifications for Business Service Officers
° Pre-selection of site search areas	° Locate office space
° Lease negotiations and/or executions conducted with building owners prior to contact with OSM	° Negotiate leases for office space
° Development of space plans and lay-outs for new space and/or alterations	° Meet with administrators to determine best means of laying out offices, office facilities, and allocating space
	° Prepare plans and specifications and secure bids for repairs and alterations

Legislative Analyst's Report: In a December 1985 report entitled Real Property Management Functions in Fourteen State Departments, the Legislative Analyst identified a total of 968 positions (excluding clerical support) assigned to work on property management in the 14 property-owning departments other than the Department of General Services. These 14 agencies are spending a total of $45.6 million annually on personal services for property management, plus an unknown amount for operating expenses and equipment. This is in addition to DGS's 1,700 personnel years and total budget of $115.9 million (in 1984-85) -- or a total for the State as a whole (excluding the university systems) of 2,668 personnel years and $161.5 million.

The Legislative Analyst estimated that 363, or 38 percent, of the 968 "non-DGS" property management positions perform services that could be performed under contract with either the Department of General Services or private firms. Such services include:

Minor construction projects and alterations

New building design

Appraisals, acquisitions/sales, and lease negotiation/management

Engineering design for special repairs, maintenance, and/or minor construction or alteration projects

Site surveys

The Legislative Analyst observed that centralizing the services listed above in DGS could, in theory, save costs and improve services. The December report also stated, however, that:

> "Under existing law most departments are required to contract with the Department of General Services, regardless of the cost or timeliness of the services involved. As a consequence, the Department of General Services has no incentive to improve either the level of service it offers or the price it charges for its services. This is a particularly serious problem in the case of:
>
> - "Contruction Projects. These projects must be administered by the Office of State Architect (OSA). If the cost for design and/or construction is too high, the department either pays the higher price or doesn't get the facility. The OSA, however, suffers no adverse consequences for its unsatisfactory performance.
>
> - "Real Estate Services. The Office of Real Estate Services charges its cost directly to property acquisition appropriations with virtually no external control.
>
> - "Leasing Services. The cost for leased space includes a lease/management surcharge, regardless of whether or not services (or satisfactory service) is (sic) provided.
>
> "We believe that additional workload and responsibility to the Department of General Services would tend to exacerbate the problems that occur due to the lack of proper incentives. Consequently, we believe further centralization of property management responsibilities should be deferred until these incentives have been strengthened. Otherwise, the result is likely to be increased costs and unnecessary delays, rather than cost savings and improved services."

The Commission feels that, by itself, the degree of confusion over assignment of staff functions requires that policy makers address the system development needs of property management in State government. Under the present circumstances, we conclude that State property management is accountable to no one and, therefore, is not structured to achieve pro-active assets management. Moreover, the absence of adequate accountability has contributed to an under- accounting of total expenditures in support of State property management. We believe that strategic management of real property requires clear accountability for cost control and clear accountability for service. We also believe that in order to achieve accountability for control and/or service, the State must distinguish centralized from decentralized responsibilities.

FINDING #2: Foregone Revenue on Selected Properties Reaches a Minimum of Hundreds of Millions of Dollars

Using State-owned property because "it's there" makes sense if the present tenant must be in that exact location and the State can afford to maintain the value of that asset in its present use. Suppose, however, that a State agency without compelling location needs is occupying a building in an

area of Los Angeles or San Francisco where real estate prices have risen steadily over time. Suppose further, that the State has chosen in recent times to defer a portion of the scheduled maintenance and repairs on that building in an effort to achieve one-time savings during tight-budget years.

A pro-active assets manager would try to avoid letting this kind of situation develop to the point that the value of public real estate is diminished. One option might be to sell such a property and relocate the tenant in more affordable space which continues to meet the program requirements of that agency and which does not negatively affect the public's access to the agency. Whatever the options, inaction under such circumstances is costly. Inaction has an "opportunity cost," which consists of the dollar value of any failure to maximize return on investment in real property -- either by selling the property when its value is high or by maintaining the property so that its value remains high.

Because the State makes no routine effort to determine the potential sale price of appropriate State-owned property located in prime real estate markets, the number of opportunities foregone and the magnitude of their dollar value are unknown. Moreover, there is no incentive structure to encourage State property managers to look for opportunities to improve the State's "balance sheet" through aggressive management of the State's real estate. Whereas private sector property managers are motivated by incentives to make strategic real estate decisions that benefit their companies, public sector property managers receive neither penalty nor reward specifically as a consequence of their property management performance.

Given the custodial nature of State property management at present, we can only assume that the potential for achieving the satisfaction of a job well done is not sufficient motivation to undertake a process so demanding and delicate as initiating a high stakes real estate transaction. As a result, we believe that the State's approach to property management fails to generate tens of millions of dollars in revenue for the General Fund. Such revenue does not affect "Gann" limitations, we might add, because its source is other than taxes.

Various State oversight agencies in the past have reported on the State's failure to dispose of excess property worth millions of dollars. In 1983, the Auditor General concluded that 10 percent of State lands owned by only four State agencies are excess and could be sold for $164 million. In addition to surplus land, real estate consultants and brokers also brought to our attention examples of buildings which might well be of greater value to the public if sold, including a Department of Motor Vehicles office adjacent to valuable land in Marin County and a Caltrans superintendent station at the corner of Wilshire and Sepulveda in Los Angeles. Conceivably, some of these State activities could be moved to locations requiring lease or purchase expenditures substantially less than even the interest earnings on the proceeds. Following are two examples which illustrate the opportunities that a pro-active assets management system would identify and consider.

In Thousand Oaks, California, the State owns six acres of land located at the intersection of Routes 23 and 101. The Department of Transportation has owned this acreage for several years in anticipation of freeway construction. We understand this property is now "surplus" and could be expected to yield $200,000 to $300,000.

A second example is found in Long Beach, where two three-acre parcels are located at the Route 22 offramp to 7th Street, with frontage on Studebaker Road. Also held by the Department of Transportation, brokers estimate the market value of this acreage could be expected to yield approximately $3 million, based if it is rezoned for commercial use and sold for the conservative value of $12 per square foot.

A final case example is found at the corner of Wilshire and Sepulveda in Los Angeles where a Caltrans Superintendent's office and vehicle yard is located. The site consists of a parcel of land divided into two segments of approximately one acre each. Land in this area is extremely valuable. Recently, a parcel along Wilshire Boulevard sold for $320.00 per square foot while a parcel along Sepulveda sold for $100 per square foot. Based upon comparable sales, commercial brokers believe the property could reasonably sell for about $175 per square foot, or more then $15 million for the total parcel (one acre equals 43,560 square feet)[1].

Where the State has attempted to dispose of excess surplus land, it frequently is unable to obtain approval from the Legislature. Annually, each State agency identifies land holdings which it believes to be surplus and submits a list of these parcels to the Department of General Services. DGS then incorporates the properties into a legislative bill for final approval of sale. Unfortunately, the legislative process many times leads to the removal of properties from the surplus lands listing.

Although there will no doubt be reasons presented in defense of retaining ownership of selected land parcels and buildings and not moving certain facilities or operations to different, lower-cost locations, we believe the potential for increased revenues (while maintaining services) in many cases will more than offset the inconveniences or other reasons outlined. In other cases, the benefits will not be sufficiently persuasive. In summary, we are not advocating any particular level of disposal of State properties. Rather, we are advocating that the State use a "pro-active" approach to managing its real property in order to identify the opportunities, assess the costs and benefits, and propose to the Governor and Legislature the alternatives available that would produce maximum return on the taxpayer's dollar while maintaining public services. This Commission believes the benefits to the State would easily approach hundreds of millions of dollars.

FINDING #3: The State's "Custodial" Management of Property Does Not Sufficiently Analyze Nor Consider Alternatives for the Highest Economic Return from Real Property

Neither the Department of General Services nor the other fourteen property-owning departments (see list in Chapter I) conduct periodic analyses of property holdings to identify appropriate alternative uses that would generate the highest economic return to the State. As a result, the State has

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[1]These estimated values were provided to the Commission by the Commercial brokerage firm of Grubb and Ellis and are based on comparable sales of similar properties; they do not represent a formal appraisal.

(1) not obtained the benefits available through re-structured ownership options such as sale-leaseback, and (2) used extremely valuable property for purposes with low economic return.

Restructured Ownership Options of Certain Buildings Could Generate Millions in New Revenues and Savings

Virtually, none of the fourteen departments which manage their own properties routinely analyzes, or even considers, the option of restructuring the ownership of State properties as a means of capitalizing these assets. One such approach used in the past by private corporations, as well as at least one local government, is the "sale-leaseback" agreement. However, there are many other creative approaches to restructuring ownership of properties.

A sale-leaseback involves selling a specific property to an investor and then leasing it back under a long-term lease agreement. At the local level, several cities in California have experimented with various "leveraged leasing" in order to keep convention centers, museums, and other public buildings repaired and safe for public use. Oakland has sold and is leasing back more than 25 public buildings -- a leveraged leasing alternative with a variety of pay-offs: upfront cash from the sale of one public building, for example, financed the repair and remodeling required to keep it in its present use. Furthermore, investment of the remaining sale revenue earns interest at least equivalent to the payments the city makes to lease the building back from its new owners. In this sense, the public has retained use of an important building at no cost to the city's general fund. Moreover, at the end of a long lease term (30 years or more), Oakland will either own or have the option to purchase the buildings currently retained through sale-leaseback agreements.

This particular approach to restructured ownership has become less desirable to the investor since the Congress enacted legislation eliminating the investor's ability to depreciate the property for purposes of Federal taxes if the sale-leaseback involves a government agency. Nevertheless, commercial brokers and real estate investment consultants advised us that, on certain properties, a sale-leaseback could still be desirable to the investor if a higher capitalization rate were used for valuing the property. Furthermore, they indicated that other creative approaches are worthy of consideration, any of which (including sale-leaseback for certain properties) could generate millions of dollars in new revenues and result in other benefits.

Specifically, the State could benefit in at least three ways. First, restructured ownerships frequently include provisions for long-term lease rates that are highly desirable. Second, the State would avoid other fully supported increased costs which now are separately budgeted for items, such as utilities. Finally, the State frees itself of potentially costly major maintenance requirements over the life of the building, many of which have been deferred due to budgetary constraints.

In summary, it is not our intent to argue for sale-leaseback or any other specific restructured ownership alternative as a proper course of action for State property management. Rather, this Commission's fundamental point is that the State must consider these types of alternatives and aggressively manage our valuable assets to ensure the highest economic return -- both short-term and long-term.

The State Is Using Valuable Property for Low Economic Return Purposes

The State owns several valuable parcels of land that are currently underutilized in terms of their highest and best use. Low-cost housing, golf courses, open space adjoining State institutions, parking lots and other instances of underutilization in many cases may offer opportunities for potential new revenue if the State were either to lease or sell these properties.

In downtown San Diego, for example, the State owns and occupies a 20,000 square foot garage and an adjoining 40,000 square foot parking lot. State employees park in the lot's 116 parking spaces at a unit cost of $21.00 per month. Other spaces are used to store State automobiles. Within 5 blocks of the State's parking lot, there is more than sufficient parking capacity available with rental rates as low as $25.00 per month.

It has been estimated that the price of land in downtown San Diego is between $80-100 per square foot. Based on the current market, the State could locate employee parking in a less costly location and lease the State land to a developer under a long-term arrangement that brokers estimate would start at approximately $500,000 annually (this would of course increase over time due to escalation provisions).

A second example where the State is using valuable property for low economic return purposes was identified in a January 1986 report of the Auditor General on the California Exposition and State Fairgrounds.[2] According to that report, the Fair's general manager has indicated the State could sell or lease five sub-parcels of land surrounding the fairgrounds without causing significant negative effects on Cal Expo's ability to hold the State Fair. The information below outlines the appraised fair market value of the five sub-parcels.

CALIFORNIA EXPOSITION AND STATE FAIR
FAIR MARKET VALUE OF PROPERTY
(Source: Office of the Auditor General)

Sub-Parcel	Value
Lot A	$12,150,000
Lot E	$ 4,700,000
Lot E & Horseshow Arena	$10,460,000
Ethan Way with Horse Stalls	$12,810,000
Portion of Lot 17	$ 1,700,000
	$41,820,000

[2]Office of the Auditor General, "Lack of Management Controls and Self-Generated Revenue has led to the California Exposition and State Fair's Lack of Fiscal Independence," Report no. P-490 (January 1986).

The Auditor General Report also concluded that the land would be of equal value under 40-year and 55-year leases, generating annual rents ranging from $170,000 to $1.28 million annually per parcel, and collectively totalling $4,182,000 annually.

The specific properties ultimately identified for higher economic return uses and, therefore, increased revenues to the State, will depend in part on various program policies. In some cases, the simple availability of a facility sometimes dominates program and policy. The State's ownership of State hospitals, for example, results in a continued high level of utilization of those facilities. State-of-the-art treatment methodologies, however, no longer automatically indicate institutionalization. Reflecting this change in medical and psychiatric practice, current State-level policy favors community integration in small facilities of the mentally and developmentally disabled client populations. Custodial, or non-strategic, management of State hospital facilities maintains existing patterns of use of those facilities, despite changes in policy. Even more significant, simple custody fails to generate the resources necessary to implement those changes. For example, in discussions with one property manager at the Department of Developmental Services, he indicated that treatment of patients at one State hospital involved use of acreage around the facility. When asked whether the treatment approach was based upon the current view of psychiatric care for the patients, he responded that it was not. Rather, the treatment approach was used because "the land was there."

Certainly, the benefits of such use of the land for program purposes may outweigh any higher economic benefit to the State. However, we believe decisions regarding such use of available land should be made in keeping with the State's policy and treatment objectives.

FINDING #4: Custodial Property Management Could Jeopardize the Value and Optimal Use of Public Buildings

The public's ongoing access to public buildings is contingent on the availability of adequate funding to assure that public buildings are safe to use and economical to operate. The anomalies of public budgeting sometimes result in excluding the preservation of historically significant buildings or even routine preventive maintenance of newer buildings from the list of spending priorities which are fully funded with tax dollars. Faced with these anomalies, State property managers must either allow the buildings to deteriorate -- the custodial approach -- or assume responsibility for finding ways to prevent their deterioration -- the strategic, or pro-active assets management approach.

Deferring scheduled repairs until emergency conditions compel action is a short-term "cost reduction" strategy that has become increasingly popular in government budget cycles. Allowing facilities to deteriorate until major renovation is necessary, however, often results in higher costs overall than would have been required under a scheduled program of maintenance and repairs.

A "deferred maintenance backlog" has been building up throughout California since 1978, when Proposition 13 drastically reduced local governments' revenue from property taxes. While some cities and counties have devised non-taxing means of raising the capital to make repairs and improvements -- as we noted earlier regarding Oakland -- many have not. Over time, deferred maintenance becomes an enormous burden.

The Governor's Infrastructure Review Task Force in 1984 defined "infrastructure" as "the State's collective network of facilities (including maintenance)." This definition encompassed three categories:

1. Intrinsic infrastructure: streets, highways, utility systems, etc.

2. Protective infrastructure: police/fire facilities, prisons, hospitals, etc; and

3. Enriching facilities: educational facilities and parks.

The Governor's Task Force estimated that approximately $29 billion would be required Statewide over 10 years to fund the existing deferred maintenance backlog.

In State government alone, the Department of General Services' Office of Buildings and Grounds (OBG) has proposed expenditures of $21.6 million over five years to reduce the existing deferred maintenance backlog -- in buildings only, and in only those buildings under DGS's control. OBG's five-year plan includes projects ranging in urgency from elevator modernization and roof replacement to protection of former governors' portraits in the State Capitol and drapery cleaning in several office buildings.

FINDING #5: State Ownership of Real Property Imposes a Hidden Tax Every Year of Approximately $20 Million on Local Communities

The location of a State office building in a city certainly has benefits to a community. However, State ownership of real property imposes an economic burden on local communities because of the property tax revenue loss for which local governments in California receive no reimbursement (around the country, 37 states have provided some form of partial compensation to cities and counties based on a variety of formulas for estimating property tax revenue loss). Simplistically, by assuming a conservative 1 percent property tax rate on State property valued at $2 billion, we estimate the magnitude of this loss in California to be approximately $20 million per year Statewide. Ownership is considered by State property managers to be cheaper than leasing but, with respect to property tax revenue loss, State savings unevenly impose a significant hidden tax on local taxpayers.

Three Buildings in Sacramento. The Legislative Analyst's Office provided the following estimates of the construction costs for three recently built State office buildings (these costs are exclusive of land):

Department of Justice (Stockton and Broadway)	$27.3 million
Midtown Employment Development Department	22.3 million
Bateson Building	20.4 million
TOTAL	$70.0 million

Assuming construction costs to be representative of market value -- and therefore assessed value -- public ownership of these three State office buildings costs Sacramento taxpayers $700,000 annually in foregone property tax revenue -- or more than $2 million over three years.

We agree that State ownership has many advantages: the building up of equity, assurance of public accessibility, and the potential for attaining better coordination of and greater efficiency in State operations, among others. Unless the State benefits financially from property ownership to reduce the overall tax burden, however, communities where substantial amounts of State property are located bear a disproportionate share of the cost of non-strategic management by having to pay a hidden tax. In other words, the failure to manage strategically is not costless.

FINDING #6: State Property Management Lacks Access to Essential Expertise.

Real estate investment and development is one of those professional specialities whose experts generally seek success in the private rather than public sector. The freedom to negotiate, combined with the potential to earn substantial profits from a skillfully negotiated "deal" make this type of enterprise alien to the bureaucratic rules and civil service constraints required in government.

Strategic property management in State government would be concerned with forging a "public-private partnership" in which private sector specialists could be retained to provide services on the public's behalf. With respect to leasing, for example, we found that all of the State's leasing agents and space planners are based in Sacramento. We believe this arrangement fails to maximize the opportunities created by familiarity with local markets to obtain favorable lease terms for tenants.

As an illustration of a public-private partnership, the State could execute master contracts with local commercial leasing agents in all metropolitan areas; this would reduce the State's personnel and travel costs for the site search and lease term negotiation functions in leasing space for State operations outside Sacramento.

The State also should have regular access as needed to real estate market analysis and forecasting services. Real estate investment and development consultants, through their ongoing involvement in development transactions, could help identify opportunities to generate revenue from the State's ownership of particular real estate assets. We believe the obvious potential for conflict of interest in such arrangements would not get out of control due to ongoing public scrutiny and renegotiation of master contracts through an open bidding process.

Building Managers and Business Service Officers Need Training

The Department of General Services reports it has a staff of 31 on-site building managers. Each manager has responsibility for more than one DGS-owned building. There are seven managers, for example, to supervise the operation of 40 buildings located in the DGS-defined northern California region (excluding Sacramento). In addition to the seven managers, 245 janitors and repairmen/women -- among other types of staff -- are needed to run these 40 buildings.

Building managers are employees of the Office of Building and Grounds. For the most part, they are life-long State employees who "come up through the ranks." Although their responsibilities call for familiarity with technical systems, there are no specific training requirements for building managers beyond "education equivalent to completion of the twelfth grade;" experience on the job in a series of positions with increasing responsibility is considered adequate.

Some building managers voluntarily complete training courses sponsored by the Building Owners and Managers Association -- "BOMA." Successful completion of BOMA's seven-course training leads to designation as a real property administrator, or "RPA." The course work covers the following subjects:

1-2. The Design, Operation, and Maintenance of Building Systems (Parts I and II)

3. Managerial Accounting and Financial Concepts

4. Insurance and Risk Management

5. The Judicial System and Legal Concepts

6. Real Estate Investment and Finance

7. Administration of Real Property

One of the supervising building managers we interviewed places great importance on his BOMA training as an RPA and believes that, without such training, he would be less cost conscious and less effective in keeping the buildings in his jurisdiction properly maintained. He reported that he "insists" the building managers he supervises also complete BOMA training and become designated RPAs. We believe such training should be required within a reasonable interval following appointment to a building manager position and that new building managers should be rewarded with a pay increase upon receiving designation as an RPA.

In the 14 "non-DGS" property-owning departments, business service officers (BSOs) carry out the decentralized responsibilities of property management in State government. BSOs in the higher classifications are required to be knowledgeable regarding: property values; legal forms and procedures affecting building management and property transactions; the requirements of maintaining heating, lighting, ventilation, and air conditioning systems; and principles and practices of public and business administration. A college degree -- or its equivalent -- is required, but areas of required study are unspecified. BSOs also tend to be long-term State employees who are promoted into progressively responsible positions based on job performance. However, the State does not provide property management training for BSOs or encourage them to seek such training outside State service.

B. STATE PROPERTY MANAGEMENT FAILS TO IDENTIFY MEASURABLE OBJECTIVES AND PROVIDE PERFORMANCE INCENTIVES FOR THEIR ACCOMPLISHMENT

The importance of properly structured incentives to implementation of pro-active assets management cannot be overstated. Consequently, we are discouraged by the striking lack of incentives inherent in the existing State property management system. We believe this "incentives problem" is part of a larger problem, namely that there currently are no measurable objectives for State property management because there is no structure for accountability.

FINDING #7: Bigger Is Better in State Government

Government agencies are rewarded for growth. To gain any degree whatsoever of spending flexibility, a department must attempt to justify budget increases beyond the costs it expects to incur. Futhermore, the governmental control agencies' attempts to reduce departmental spending occur in an adversarial environment. Thus, "winning" a budget "battle" means to a department director increasing the department's spending authority.

In contrast, private sector firms try to reduce costs in order to maximize spending flexibility. By cutting the cost of operations, private firms free up capital for other purposes which benefit them, such as re-investment in the business. They encourage voluntary cooperation in this effort by using a portion of their enhanced revenue to increase salaries, benefits, and/or bonuses for employees.

In the government sector, money saved returns to the General Fund. Similarly, the proceeds of the sale of State-owned property would be deposited in the General Fund rather than retained in the budget of the owning department. It is hard to imagine what incentive a department director and his or her staff might have under these circumstances to save money by reducing occupancy costs, to make money by selling underutilized property, or to utilize property in a manner that produces the highest economic return.

Beyond incentives, there appears to be no system for the State as a whole or within any individual department for developing annual measureable objectives for reducing the cost of occupying space. This single failure to manage State assets pro-actively is costing the State millions of dollars annually. We estimate, for example, that setting modest cost-reduction goals of up to 3.5 percent -- assuming $386.8 million as a baseline amount -- would save the State $34.8 million over three years (based on a 2.5 percent reduction in the first year, a 3 percent reduction over baseline in the second year, and a 3.5 percent reduction in the third year). However, since we have already concluded that this baseline amount is probably understated, we believe the actual savings would be even higher.

Private Sector Example: Wells Fargo Bank. The Facilities Management Group (FMG) within Wells Fargo Bank is headquartered in San Francisco. Each branch bank and each administrative unit is referred to as a "user group." FMG is involved in the lease versus buy decision as well as site selection for every user group.

FMG tightly controls certain aspects of occupancy costs for bank operations statewide. FMG staff advised us that the Group's overall annual objective is twofold: (1) not to exceed the annual budget for occupancy costs, and (2) to complete approved capital projects on time and on budget. FMG staff have incentives to fulfill these objectives: (1) their progress is regularly reviewed by senior management (which makes the decision when any site recommended by FMG is disputed by the user group), and (2) the actual amounts of their annual bonuses are determined by their performance.

In the case of a lease decision, the Facilities Management Group makes the final decision regarding selection of leased space, negotiates the lease terms without revealing those terms to the user groups, and charges all user groups located in leased space an equalized rate. This practice assures that the centralized facilities managers have complete and timely information on occupancy costs and allows them to set cost reduction targets over a specified period. The extent to which FMG succeeds in reaching its cost reduction targets determines the actual savings the facilities management function contributes to Wells Fargo's profits.

Although a user group manager cannot affect the rental rate his or her unit must pay to the bank, the unit manager does have other options: "down-sizing" to reflect the reduced space requirements stemming from new banking technologies, for example, and/or sub-leasing unused space in his or her facility to outside (but compatible) businesses. Because annual bonuses are based on the profit which a particular unit generates for the bank as a whole, user group managers have an incentive to exercise such options.

To encourage down-sizing in branch banks, thereby assisting the Facilities Management Group to reach its cost control targets, staff have developed new space allocation standards for branch banks and contracted with professional space planners to design aesthetically pleasing configurations that reflect banking's reduced space requirements. In this scenario, incentives link performance to measurable objectives: a necessary condition for pro-active assets management.

In State government there is a "perverse" incentive to increase staff, budget, and program size. This makes establishment of measurable objectives even more important for government than the private sector. The lack of quantifiable reports of individual performance in an organization that also lacks balance sheets as indicators of overall performance makes new spending, or failure to reduce costs and increase revenues, easier to justify. Left unchecked, these tendencies create a management system in which "bigger is better."

FINDING #8: State Employees Lack Incentives to Reduce Costs

Reducing the cost of operations in State government can cost a manager a pay increase. This is so because classification of managerial employee level and salary are based on supervisorial responsibilities rather than performance outcomes. Managers may increase their pay by increasing the number of people working under them, whether or not a manager progresses toward a department's stated goals. Thus, managers in State government have hidden, or "perverse," incentives to expand operations rather than reduce costs.

Although there is a "suggestion program" whereby individual employees may receive proportional benefits from savings achieved through implementation of their suggestions, the annually adjusted compensation system for State employees historically has provided no reward system to encourage efficiency. Cost-cutting, if addressed at all, is assumed to be part of one's job. Business service officers, for example, are required to "plan, organize, and coordinate... fiscal control of receipts and expenditures." Since there are no targets set for reducing expenditures, however, performance of this requirement is not measurable, nor is it rewarded or penalized as warranted. In our view, this is neither realistic nor productive for the State.

Management Performance Appraisal System. In October 1985, the Director of Personnel Administration distributed a memorandum to State agency secretaries and department directors regarding the "Managerial Performance Appraisal System" -- MPAS. The memorandum describes eligibility for bonuses under MPAS in terms of calendar days spent in the position being evaluated: 180 are required. Certainly, this is a measurable criterion of eligibility. The memorandum does not specify, however, the criteria by which performance is to be appraised.

Managerial bonus payments are to be made from the General Fund. Allowable bonus payments range from a minimum of $2,500 to a maximum of $5,000, and there are limitations on how many employees in a department are allowed to receive them.

The Commission believes that MPAS is a step in the right direction but that, to be effective, incentive pay must be directly tied to performance that can be shown to have measured up to a department's quantifiable objectives. We also feel the proposed range of bonus payments is rather inflexible: a $2,500 minimum seems unnecessarily high, while a $5,000 maximum seems arbitrarily low. We believe employees should benefit financially for performance in proportion to the financial benefits they generate for the State. And, most importantly, rewards must be tied directly to accomplishment of measurable objectives which are based upon a pro-active assets management strategy.

C. STATE PROPERTY MANAGEMENT IS NOT SYSTEMATIC

When we observe that property management is not "systematic," we do not mean that it lacks standard operating procedures, standards for workloads or square footage allotments, manuals, work flow charts, standard forms, or automated data processing. Indeed, the standardizing forces of bureaucracy have not bypassed property management in California. Given the array of system elements that are in place and the degree of internal logic and sophistication many individual elements manifest, what is remarkable is that property management in State government nevertheless is not systematic.

We note, for example, that State property management fails to provide opportunities and mechanisms for self-evaluation; the findings in this section repeatedly attest to this problem. The system is not sufficiently centralized to produce data that would identify cost centers out of control and, therefore, in need of analysis and correction. The system is not sufficiently de-centralized, on the other hand, for property management activities to be integrated with other top management responsibilities in individual departments; consequently, variables such as efficiency of space utilization do not become part of the calculus for improving program administration at the department level.

The ambiguity of what State government wants to accomplish in general through a property management system leads to overdevelopment of procedures, proliferation of forms, and indiscriminate data collection -- means of staying busy when it is not clear what is supposed to be getting done. Ambiguity prevents opportunities for State property managers to see their mistakes and correct them and/or measure their effectiveness. Lacking mechanisms for meaningful self-evaluation, State property management continues to accumulate a full complement of standard bureaucratic procedures, but falls short of becoming a system.

FINDING #9: Planning in a Custodial Property Management System Resembles Planning in a Vacuum

Various offices in DGS's Real Estate and Buildings Division participate in the planning to meet ongoing and future space requirements for State operations. One product of this process, a Capitol Area Plan, "consists of a set of specific policies and actions which are grounded in a more general set of goals, concepts and design principles" (emphasis in the original). [Capitol Area Plan, Progress Report, December 1983, page 5]

Our perception of DGS's current planning process is that the overall goals more nearly resemble statements of philosophy than enunciations of property management strategies. As a result, the department has not been able to break broadly stated goals into step-by-step actions that can be assigned for implementation to responsible units of State government. To illustrate, we list as follows the seven "Capitol Area Plan Goals" as identified in the December 1983 progress report (page 7):

1. Provide State office space needs near the State Capitol and downtown area to meet future demands.

2. Maintain the State Capitol as the focal point of the downtown area. Design of new buildings and development of a variety of open spaces should complement the Capitol and not compete with it in scale or design.

3. Land use within the Capitol Area should be a mix of professional, residential, open areas and commercial space to encourage a 24-hour activity center.

4. Coordinate transportation measures between the State, City, County, and regional transportation agencies to encourage use of existing public transportation systems and develop additional transit alternatives.

5. Increase the supply of housing in and around the Capitol Area through rehabilitation of existing dwellings and new construction which will be affordable to persons with a variety of incomes.

6. Develop State projects which support and stimulate the existing economic community and encourage additional private investment.

7. Continue a coordinated planning effort by the City, State and County to implement the Plan, and maintain the commitment of the Legislature.

The Plan goes on to describe four "Capitol Area Plan Concepts": (1) State Office Consolidation, (2) 24-Hour Community, (3) Conservation, and (4) Responsive Transportation. The Plan further discusses the subject of a Capitol Area Plan in terms of design principles, program elements, and conditions and assumptions. At no point, however, does the Plan include a target number or percentage -- in short, it fails to produce a single measurable objective. Even the reports of actions and accomplishments to date are not stated in measurable terms; rather, the accomplishments are presented as ongoing processes which can be treated as resources for future decision making.

To illustrate how the lack of measurable objectives reveals a system that is out of control, we cite the goal of consolidation of State office space. In the Sacramento Facilities Plan (October 1984), DGS's Office of Facilities Planning and Development recommended several objectives for management of office space, including to:

> "Consolidate agencies which meet specific criteria on a priority basis, to relieve the most pressing operational or economic situations." [Page vii]

Our Commission also has been on record in favor of consolidation of State agencies' office space -- either to consolidate units of a single department or to co-locate departments serving similar clients. The Department of General Services has reported to the Commission that over the decade from 1974-5 through 1984-5, 61 consolidations of office space occurred. Most of the consolidations occurring in a single location occurred in Sacramento: 22, or 36.1 percent.

TABLE II-7

Office Space Consolidations
1974-5 through 1984-5

Location	Number	Percent
Sacramento	22	36.1%
Santa Rosa	14	22.9
Van Nuys	9	14.8
San Jose	8	13.1
Long Beach	7	11.5
San Francisco	1	1.6
TOTAL	61	100.0%

Source: Department of General Services

The question is: How many consolidations are enough? Is 61 in ten years a lot or not very many? How many opportunities to consolidate were rejected? How can we know when we have accomplished sufficient consolidation for one year -- or five years, or ten? Who should get the credit for this achievement? Or the blame for lack of achievement? At what point should we evaluate whether consolidation is still a desirable goal? And, to get directly to the point of pro-active assets management, did consolidation increase or decrease costs -- or productivity -- and by how much?

Inaccurate Projections of Space Requirements

DGS's Office of Facilities Planning and Development (OFPD) periodically updates its five-year projections of future space requirements. To the extent that such projections are accurate, they would constitute valuable information in a program of pro-active assets management as the basis for setting strategic goals and measurable objectives related to obtaining adequate space as economically and expeditiously as possible. Table II-8 shows that during fiscal years 1979-80 through 1984-85, OFPD came closest to projecting actual need in 1982-83; however, actual need that year exceeded the projection by 75.5 percent. OFPD uses State population trends as its primary indicator in planning for space requirements because the number of State employees historically has correlated closely with total population. During this period, "actual population estimates" did not exceed the Department of Finance's projections of total population by more than 2.8 percent. Consequently, the population estimates could not have been the source of error.

TABLE II-8

Overall Square Footage Needed
For State Operations
(Office and Storage)
1979-80 through 1984-85

Fiscal Year	Projected[1]	Actual	Percentage by Which Actual Exceeded Projected Requirement
79-80	8,770,575	15,622,000	78.1%
80-81	8,915,675	16,185,800	81.5%
81-82	9,060,775	16,543,500	82.6%
82-83	9,205,875	16,154,645	75.5%
83-84	9,350,975	17,137,920	83.3%
84-85	9,496,100	17,127,140	80.4%

[1] Based on "Future Space Requirements for Major California Metropolitan Areas Report" dated May 21, 1974, which was prepared by the Department of General Services. The difference between the projected and actual square footage can for the most part be attributed to the following: (a) the average square footage factor per employee has increased from 150 to 171; and (b) there were major unforeseen staffing increases in environmental and social welfare programs. [This footnote was provided by the Department of General Services.]

Source: Department of General Services
Office of Facilities Planning and Development

We do not doubt the difficulty of forecasting space requirements for State government operations. What we are suggesting is that, given the consistent magnitude of the underestimates, the failure to revise assumptions underlying space requirement projections constitutes evidence that property management in State government is neither strategic nor systematic. Furthermore, we believe that, if the State were to manage its assets pro-actively, it would determine targets for reduction of error and offer incentives to planners to improve the accuracy of their projections.

FINDING #10: The State's Inventory of Real Property Is Inaccurate and Incomplete

Strategic and systematic management of State-owned property would require that the following information be available on a timely basis:

1. Itemization of buildings and land parcels the State owns

2. Size and type of each, including variables such as number of acres and, for buildings: number of stories, gross square feet, net usable square feet for office, storage, parking

3. Location (address)

4. Estimated market value

5. Present use

6. Annual cost of building operation and management per square foot (buildings only)

The Department of General Services maintains an automated inventory of space which is occupied for State operations and which is under DGS control as well as a proprietary land index (most recently updated in mid-1982). As we have noted, however, DGS's control is not universal and its inventories are therefore incomplete. The inventory DGS does maintain on building space (the proprietary land index contains comparable data pertaining to land parcels) itemizes:

1. Agency name

2. Space location (address)

3. Terms of occupancy

4. Authorized personnel years

5. Type of space (office, storage, parking)

6. Square feet occupied

   a. State-owned
   b. Leased

7. Monthly rental rate per square foot

8. Monthly rental - total

This inventory contains information which is clearly useful, but the inventory is incomplete and the data appear to be inaccurate or perhaps simply out-of-date. Out of 111 possible comparisons in Table A-1 (see Appendix A), based on data from our survey of 45 departments occupying 50,000 square feet or more, we found only seven instances -- 6.3 percent of all data cells -- in which the figures reported by individual departments were the same as those which appear in DGS's inventory. Four of the seven were agreements on a "zero" response. Discrepancies included:

* The Department of Corrections reported that it occupies 340,482 square feet of leased space at an average lease rate of $1.12 per square foot. DGS's inventory showed 149,395 square feet @ $1.27. This equates to a difference of more than $2.2 million a year in rental cost which the Department of General Services does not and cannot monitor or evaluate for relative efficiency.

* The Employment Development Department reported it occupies 1,271,712 square feet of State-owned office space; DGS's inventory indicated 635,228 square feet. This example is interesting in that it reveals the magnitude of State-owned and -occupied space which is not centrally controlled or monitored.

* The Department of General Services itself reported that it occupies 281,486 square feet of leased space at $0.815 per square foot while DGS's inventory indicated 274,643 square feet at $0.76 per square foot. The difference in this case totals about $250,000 a year in the department's expenditures for rent. Again, this illustrates the incapacity to monitor expenditures.

Lack of consistency in data can have any number of explanations. One source of deviation derives from the method of comparison itself: the survey data refer to an entire fiscal year whereas the inventory data refer to a specific point in time (February 26, 1985). Still, it seems unlikely that there would have been such significant movement in so many State departments over a single year to account for discrepancies of such magnitude. Perhaps, too, definitions of "office space" used by individual departments are different from definitions used by DGS. The lack of standard definitions for categories of expenditure suggests that State property management is not systematic. Being unable to disaggregate actual expenditure categories over time makes it impossible to identify spiraling costs, to set strategic goals using measurable objectives to bring costs under control, or to offer incentives to State employees to meet the State's goals and objectives.

It is important to remember that DGS's records pertain only to properties it controls while individual departments' records blend DGS-owned properties with properties they themselves own or lease. The discrepancies in data, however, were as prevalent for leased space as for State-owned -- even though only DGS executes leases. Regardless of how many discrepancies could be fully explained, the point is that needing to go to multiple sources and to commandeer untold numbers of staff hours in order to come up with consistent data constitute evidence that State property management is not systematic. The lack of systemic reliability would make PAM strategy planning and implementation extremely difficult, if not impossible.

FINDING #11: Automated Data Processing Is Not Utilized Systematically for State Property Management

There are at least three ways in which the State underutilizes its automated data processing (ADP) capabilities with respect to property management: (1) the distribution and use of ADP resources are uneven and uncoordinated; (2) applications of ADP capabilities are unrelated to property management objectives; and (3) priorities for ADP utilization appear not to have been determined.

Distribution Is Uneven and Uncoordinated

The automated data processing (ADP) capacity for State property management is unevenly distributed throughout affected departments, and the development of ADP systems for property management is not coordinated by DGS. Table II-8 shows that, of the 37 departments responding to our survey, 26, or 70.3 percent, reported they maintain property management information systems manually.

TABLE II-9

Automated Data Processing
For Property Management

	Number of Departments	Percent
Fully Automated	1	2.7%
Partially Automated	9	24.3
Manual	26	70.3
No Response	1	2.7
TOTAL	37[a]	100.0%

Note: [a] Responding departments only

Source: Little Hoover Commission Survey of State Departments Occupying 50,000 Square Feet or More of Office Space in 1984-85

Of the 10 departments reporting they have partially or fully automated property management information systems in place, none reported using commercially written facilities management programs. Rather, they have created their own applications for this purpose using commercial software such as MultiPlan, Lotus 1-2-3, MicroSoft, or others. Based on these responses, we assume that existing ADP systems decentralized to property managers at the department level do not "talk to each other." This further obstructs the development and maintenance of a comprehensive and accurate inventory.

We believe that ADP capabilities in various departments lack coordination because the strategic goals of the State's property management system have not been articulated. Consequently, DGS has no basis for making a systematic effort to educate decentralized managers regarding property management decisions that need to be made and/or how to select and install ADP systems to support that decision making process. Lacking such awareness, DGS and the other departments are collecting and storing property management data without knowing which data are necessary or how to analyze the data to help them improve their effectiveness.

ADP Applications Are Unrelated to Objectives

The Office of Buildings and Grounds in DGS's Real Estate and Buildings Division tracks fluctuations in the costs of operating public buildings around the State (OBG tracked costs in 26 buildings in 1982-3; OBG tracked costs in those same 26 plus an additional seven buildings in 1983-4 and 1984-5). For each building in the group selected as representative, OBG reports annually to DGS management and to OBG regional building managers the total annual cost and the annual average cost per square foot in each of the following categories:

* Direct Building Cost
    - Central Plant Pro-rate
    - Cleaning
    - Decorating
    - Electrical
    - Elevator
    - General Expense
    - Heat and Air
    - Plumbing
    - Special Repairs
    - Supervising and Estimating
* Building Overhead
* Total Building Cost

Clearly, this level of detail could provide the basis for significant comparisons over time across buildings and cost components and allow measurement of performance. Table II-10 summarizes the data for all buildings over the three fiscal years from 1982-3 to 1984-5. Alert property managers would want to know how to account for the fluctuations in operational and overhead costs shown in Table II-10. If these managers received incentive pay for their performance in meeting measurable property management cost control objectives, the State's cost-tracking capability would be of more practical interest and would lead to pro-active decision making.

TABLE II-10

Changes in Average Cost Per Square Foot
For Building Operations and Overhead
1982-3 to 1983-4 and 1983-4 to 1984-5

	AVERAGE COST PER SQUARE FOOT		
	Operating	Overhead	Total
1982-3[a]	$ 3.214	$ 0.445	$ 3.659
1983-4[a]	3.323	0.522	3.845
CHANGE			
Amount	$+0.109	$+0.077	$+0.186
Percent	+3.4%	+17.3%	+5.1%
1984-5[b]	3.877	0.478	4.355
CHANGE			
Amount	$+0.564	$-0.057	$+0.507
Percent	+17.0%	-10.7%	+13.2%

Note: [a] Average based on comparison of costs in a set of the same 26 buildings owned by DGS.

[b] Average based on comparison of costs in a set of the same 33 buildings owned by DGS. The average cost amounts for this set of buildings in 1983-4 (and compared in this table with 1984-5 costs) were: $3.313 (Operating), $0.535 (Overhead), and $3.848 (Total).

Source: Department of General Services
Office of Buildings and Grounds

As we stated earlier, we are impressed by the sophistication of various elements of the State's property management capabilities. DGS now has such data available as are shown in Table II-10 on a building-by-building basis; this certainly makes it possible to generate information essential for accurate budgeting and to compare performance with objectives. The State's failure to take advantage of this opportunity is undoubtedly related to the lack of an appropriate incentives program, but it is also evidence that State property management is not systematic. Systems, by definition, consist of functionally related elements. In State property management, the necessary elements exist and are functional, but they frequently are not related to each other to make a designed and coordinated system in which information generated for one purpose is readily available and formatted for compatible uses and purposes.

ADP Applications Priorities Have Not Been Set

A separate but related problem has to do with the apparent lack of priorities for utilizing available ADP equipment. For example, automation of the simplest and most repetitive types of data analysis would assure accuracy and save time. We have already referred to data indicating changes in operating and overhead costs over time in a group of public buildings DGS has selected as representative (see Table II-10). To calculate these changes, we had to correct six errors in costs reported in various categories which, lacking access to the raw data, we presumed to be errors in addition. This type of error suggests the calculations were made using a calculator rather than an electronic spreadsheet, since a spreadsheet would have revealed errors of data entry ("typos") which could then easily have been corrected. The significance of these errors -- as revealed in Table II-11 -- is that, with the addition errors, overall operating costs declined by 2.8 percent whereas, without the addition errors, operating costs increased by 3.4 percent.

TABLE II-11

Differences in Operating and Overhead Costs
In 26 Public Buildings
From 1982-3 to 1983-4
With and Without Addition Errors

(In Percents)

	Operating Cost	Overhead	Total Cost
With Addition Errors	- 2.8%	+ 7.9%	+ 1.5%
Without Addition Errors	+ 3.4%	+17.3%	+ 5.1%

The Department of General Services is one of the departments that reported having a "partially automated" property management information system. Choosing to analyze massive amounts of detailed cost data with a calculator means the department considers data analysis to be a low priority for utilization of existing ADP equipment. The total operating cost for buildings of comparison in 1982-3 was $17.1 million: did operating costs decline in these buildings by $479,400 or increase by $582,800? Given that total facilities operation costs exceed $100 million annually -- for properties under DGS control alone -- these uncertainties take on added significance. Lacking strategic cost control goals, measurable objectives directed at reaching those goals, and staff incentives to encourage meeting the objectives, inaccurate analysis regarding whether costs rose or fell is literally of no consequence. We believe this is further evidence that State property management is not systematically reliable and, therefore, could not in its present condition support a pro-active assets management program.

FINDING #12: Management of "Space Action Requests" Is Unwieldy and Slow

We conducted a case study of "Space Action Requests," drawing a random sample from DGS's file of completed transactions over a two-year period (see Appendix B for a more detailed description of findings and a description of the case study methodology). Based on our review of these requests, which included requests for all types of space actions, we reached the following conclusions:

1. Internal Documentation Is Unwieldy. DGS's space action request files are unwieldy: the officially approved processing of space action requests requires extensive documentation and multiple levels of review -- as well as multiple reviews at the same level. There is no single form to summarize this process; consequently, the completeness of information across transactions is inconsistent. Even when the forms have been completed, pertinent data may be missing. For example, the standard form now used to record site search activity requests information on three alternatives but does not ask for either the total number of sites considered or the site search dates.

   Many files contain only the original space action request (Standard Form 9) and a DGS form (Standard Form 100) on which one may track a Form 9 through the bureaucratic hierarchy according to the initials and dates which appear in a list but which do not refer to actions taken, by whom, or to what end. Extractable data are restricted to project start and completion dates and the size or cost of the space or any alteration to it. Given this inadequate data base, DGS is unable to evaluate its own efficiency in processing space action requests.

2. The Office of Space Management Lacks an Effective Project Management System. Most of the activities carried out by the Office of Space Management (OSM) are guided by workload standards derived from past experience from carrying out various projects. Such an approach to setting standards, in essence, formally sanctions past inefficiency. These activities are coded in such a way as to make disaggregating the data by project type impossible. As a result, it is too time-consuming and difficult to find out what was actually involved in, say, renewing a lease or altering office space. Furthermore, workload standards include travel time to and from sites but do not allow for geographical variation. Thus, time differentials involved in trips across the street, across town, or across the State do not affect the amount of time projected to complete a specific project.

   The relevance of these anomalies is that they prevent DGS from being able to evaluate its own performance in processing space action requests. In Appendix B, Table B-5 indicates that project norms have been set uniformly too high -- for no project type involving State-owned space did we find that the mean workload standard was set lower than the time actually spent. In fact, average project norms exceeded the time actually spent by an average of 26 hours. Ideally, there would be little or no deviation, indicating that realistic standards had been set. Under the circumstances, comparisons of the

differences in time actually spent on a project with time requirements DGS projects make any attempt to assess productivity irrelevant -- other than to demonstrate that the project norms are currently set so high as actually to encourage inefficiency.

3. Processing Time Is Slow. In the cases we sampled, DGS typically -- that is, in more than 50 percent of cases -- completed the requested transactions seven months later than the client agencies indicated they would need the changes. There was little difference in those cases in which an agency did not specify a date when it needed action. Ironically, processing was completed most expeditiously -- five months after submitting the request -- in the 20 percent of cases in which departments did not specify a target date. In another 20 percent of cases -- in which departments asked for action "as soon as possible" -- transactions were completed six and a half months later. In only two of the 90 sample cases was the requesting agency's project completed by the date it had requested action; in one of the cases, the action was a study and, in the other, a lease renewal. There appears to be no significant difference in processing time for space transactions in State-owned space compared with leased space. It took an average of six months to find new office space in a State-owned building as opposed to 5.6 months for a negotiated lease. The elapsed time for lease renewals, amendments, and extensions ranged from an average of 4.3 months to 7.5 months. Two requests to reduce space fell in the sample; in the State-owned building, it was accomplished in one month, while nine months elapsed before the leased space was reduced.

Despite these and other problems we have described pertaining to DGS's ability to meet State departments' needs for space and space-related services, State departments are forced to accept whatever level of service DGS does in fact provide. Whether or not they are satisfied, State departments have no choice of vendors other than the Department of General Services. If DGS's errors or delays increase client departments' costs, the departments must pay.

Chapter III

RECOMMENDATIONS

Our review of State property management indicates that it:

1. Is Not Strategic: the system fails to recognize property as a valuable asset, lacks overall property management goals and pro-active management strategies, and fails to set measurable objectives for reducing costs and increasing revenues.

2. Lacks Performance Incentives: State government fails to offer incentives to individual employees and/or departments to implement a pro-active assets management program to reduce costs and increase revenues.

3. Is Not Systematic: the system lacks the ability to evaluate individual and departmental performance in striving to achieve goals and to report on performance in measurable terms; the system also lacks the capacity for accurate and timely data base management and data anlaysis.

The significance of these three broadly-stated findings is that adopting a pro-active assets management approach could, over three years, save the State more than $35 million in reduced occupancy costs alone, and potentially generate hundreds of millions of dollars in new revenues from either the leasing, selling, or other revenue generating use of State-owned property.

Space is a valuable and increasingly scarce resource. Regardless of who owns it, space for State operations is costly to build or lease and costly to operate, clean, heat, cool, light, repair, retrofit, and remodel. Traditionally, government has treated its relationship to space as predominantly a cost item only when, in fact, it possesses substantial value and, if managed pro-actively, could generate revenue as a return on the public's investment in real property. To achieve a change of this magnitude would require property management in State government to be strategic and systematic and to link performance to the accomplishment of goals and measurable objectives by offering structured incentives to State property managers.

A. AUTHORIZE PRO-ACTIVE ASSETS MANAGEMENT PILOT PROJECT

We recommend that the Governor and the Legislature cooperate to authorize a pro-active assets management pilot project. We further recommend that the pilot project have the features described below.

Purpose: 1. The pilot project should develop the parameters of an information base needed for pro-active assets management.

This information should include, but not be limited to, the location, size, and present use of all State-leased space, and location, size, present use, and estimated market value of every State-owned land parcel and/or building in the designated pilot project area.

2. The pilot project should produce an estimate of the opportunity cost to the State of maintaining in its present use all State-owned property in the designated pilot project area.

Lead Agency: We recommend that the Department of General Services be the lead agency for State administration and oversight of the pilot project. DGS's responsibilities will include, but not be limited to:

- Selecting the consultant;
- Coordinating the participation of other State departments;
- Managing the project (including the consultant contract); and
- Proposing to the Governor and Legislature policy-related and procedural changes in State property management based on a combination of the consultant's report, feedback from participating State departments, and -- to the extent feasible -- input from participating representatives of local and federal governments.

Pilot Project Site: We recommend that the pilot project be conducted within a defined geographic region -- possibly the San Francisco Bay Area or Los Angeles County -- where the State currently owns and occupies significant amounts of space in high price real estate markets. Restricting the project to a specified geographic region will facilitate the process of appraising a finite number of properties for their market value. The availability of ongoing real estate market analysis makes large metropolitan areas attractive as potential sites because access to existing information would reduce the time and money required to complete the proposed pilot project.

Consultant: We recommend that the Department of General Services contract with a firm that offers consulting services in the following areas: real estate investment and development, public sector financing alternatives, and public management and policy analysis. The consultant is needed to provide the following services in the designated pilot project area:

1. Develop an information base on State-occupied property to include location, size, and present use of leased space, and location, size, present use, and estimated market value of State-owned space.

2. Identify "segments" of State-owned properties -- for example, by market value, size, geographic region, proximity to commercial development, historical significance -- and recommend an order of priorities in which pro-active assets managers should consider disposition or ownership-restructuring alternatives for properties in each segment.

3. Describe and analyze, in terms of costs and benefits to the State, alternatives for selling, exchanging, or re-structuring ownership of land and/or buildings currently owned by the State. Such alternatives should include, but not be limited to, appropriate forms of leveraged leasing and should include estimates of expected maintenance, repair, and retrofitting costs should the State decide to retain ownership.

4. Enumerate possible options for earning revenue on the State's real estate holdings, including estimates of (a) overall revenue currently forgone due to the lack of pro-active assets management, and (b) expected interest earnings on investment of the revenue from sale or lease of State-owned properties whose present use is not economical from a pro-active assets management point of view.

5. Propose a pro-active assets management model system within State government with recommendations for structuring cost controls and performance incentives to meet strategic goals which should include, but not be limited to, the following:

   a. Reduce occupancy costs;

   b. Maximize efficiency of space utilization;

   c. Maintain or increase the value of State-owned property;

   d. Maximize earnings/revenue from pro-active management of State-controlled property; and

   e. Manage property to support State programs and policies (rather than manage programs and implement policies in order to utilize existing State-owned facilities).

6. Assess the strength of bureaucratic resistance to pro-active assets management in State government and suggest means of managing such resistance, including identification of appropriate areas for compromise.

7. Analyze existing State and federal laws pertaining to pro-active assets management options in State government, identify existing legal barriers to proposed alternative models for pro-active assets management, and recommend changes in State or Federal legislation necessary to facilitate the alternatives that would minimize State costs and maximize State revenue.

8. Analyze the public policy implications of the recommendations for implementation of a pro-active assets management approach to State-owned and controlled real estate, including but not limited to:

   a. Long-term versus short-term advantages and disadvantages of custodial property management and pro-active assets management;

b. Normative parameters for public-private partnerships created for the purpose of conducting property management activities on behalf of the State, including an analysis of civil service barriers to contracting for specialized services;

c. Impacts on local governments due to potential increases in property tax revenue should State-owned properties be sold to private investors;

d. Impacts on local governments of repeal (which the Commission would support) of current State law which allows local governments right of first refusal to purchase State-owned property the State wants to sell -- at 50 percent of market value; and

e. Comparative effectiveness of personal versus institutional incentives for performance of public obligations -- specifically the structured incentives recommended in the consultant's final report.

Advisory Committee: We recommend that the Department of General Services appoint and coordinate an Advisory Committee to assist DGS and the consultant by participating in all aspects of the pilot project: from development of the request for proposals to be sent to interested consultants to reviewing and commenting on the consultant's final recommendations before they are submitted to the Governor and Legislature. Members of the Advisory Committee should include, but not be limited to, representatives (directors, and/or business service officers) of the departments that own and/or occupy property in the designated pilot project area.

Invitation to Local and Federal Governments: Wherever the pilot project is carried out, we recommend that the Governor and Legislature invite the federal government and affected local governments to participate in the project by:

1. Designating representatives to participate on the Advisory Committee; and

2. Adding to the total amount the State makes available for consulting fees in exchange for the consultant's analysis of the market value of locally- and/or federally-owned public buildings and evaluation of opportunities to adopt pro-active assets management procedures and strategies with respect to those properties.

We believe that efforts to develop an information base on all publicly-owned buildings within a geographic region would enable multiple levels of government to maximize the efficiency of utilization of publicly-owned space. For example, the consultant would very likely discover opportunities for co-location of compatible local, State, and/or Federal activities, thereby potentially reducing overall space requirements.

Furthermore, ultimate disposition of properties now owned by the State may require the future cooperation of other levels of government. In that likely event, the early involvement of local and Federal representatives in changing the State's property management procedures may facilitate ongoing education and efforts to obtain necessary regulatory approvals.

B. STRUCTURE ORGANIZATIONAL ACCOUNTABILITY

We recommend that the Governor and Legislature cooperate to adopt an organizational structure for State property management which establishes mechanisms designed to assure accountability of decision making. Specifically, we recommend that State property management be restructured to accomplish the changes described below.

Centralized Policy Development: We recommend that the Department of General Services create policy direction for all State property management by setting overall strategic goals by no later than January 1, 1987. These goals should include, but not be limited to, the following:

a. Reduce overall occupancy costs by a target percentage over a three-year period, employing such methods as:

   1. sub-leasing underutilized space;
   2. re-locating State operations in lower rent and/or smaller facilities;
   3. reducing utility costs;
   4. reducing space requirements for records storage by converting to microfiche or electronic data storage wherever possible; and
   5. improving space utilization wherever possible.

b. Identify current property holdings;

c. Assess the value of those current property holdings which meet criteria set by DGS (for example, located within specified proximity of new commercial development);

d. Evaluate in terms of revenue potential and policy implications, alternatives for selling, leasing, other higher economic return uses, or retention of properties that meet the assessment criteria set by DGS;

e. In terms of cost savings and policy implications, evaluate alternatives -- such as lease versus own and/or sale-leaseback for meeting future space requirements for State operations; and

f. Determine the expenditure level for maintenance and repair required to keep properties safe and available for continued public use.

Although it is clear that implementation of the pilot project we have recommended would be useful to the Department of General Services in developing overall strategic goals for State property management, we believe the Department should assume this responsibility whether or not the Governor and Legislature approve the pilot project.

Decentralized Development of Operational Plans: We recommend that the 14 departments which currently own their own property develop -- with the participation and assistance of DGS staff -- three-year operational plans to meet the strategic goals set by DGS. These plans should specify and justify staffing needs and State operational objectives in measurable terms; the plans should be up-dated annually to reflect actual progress over the preceding year.

The 14 affected departments are as follows:

* Department of Boating and Waterways
* CalTrans
* Department of Corrections
* Department of Developmental Services
* Employment Development Department
* Department of Fish and Game
* Department of Food and Agriculture
* Department of Forestry
* Department of Motor Vehicles
* Department of Mental Health
* Department of Parks and Recreation
* Department of Veterans' Affairs
* Department of Water Resources
* Youth Authority

We further recommend that measurable progress toward accomplishing the specified objectives be the basis for awarding incentive bonuses to State property managers according to procedures and rules established by the Director of Personnel Administration (in an October 9, 1985 memorandum to agency secretaries and department directors regarding the "1985-86 Managerial Performance Appraisal and Incentive Pay Program") or according to guidelines developed cooperatively by the Departments of Finance, General Services, and Personnel Administration, if our recommendation that they develop such guidelines is accepted (see Recommendation C).

Procedures for Accountability: In addition to setting overall strategic goals, the Department of General Services should develop its own operational plan, to be approved by the Director of Finance and the State and Consumer Services Agency Secretary; DGS's operational plan should specify in measurable terms the Department's objectives in keeping with its role in the implementation of the State's overall strategic goals for pro-active assets management. We further recommend that DGS assume the following additional responsibilities:

Plan Approval. We recommend that the Department of General Services have the authority to approve, modify, or deny approval of each of the 14 departments' three-year operational plans. In the case of disputed plan elements, resolution should be the responsibility of the Directors of General Services, Finance, and the affected department.

Assets Management Reports. We recommend that during the first three-year planning cycle, the affected 14 departments submit written progress reports to DGS semi-annually, and annually thereafter. Based on the management progress reports for the departments' plans, we recommend that the Department of General Services issue an annual report for the Governor, the Legislature, and the public regarding accomplishments in each fiscal year toward reaching the State's strategic goals for pro-active assets management. DGS's annual report should include, but not be limited to:

1. Actual total occupancy costs for the reporting period, broken down by "Facilities Operation -- Supplies and Equipment," "Facilities Operation -- Personal Services," "Utilities," "Deferred Maintenance,"

"Special Repairs," "Capital Outlay," "Lease Payments," "Payments to Building Rental Account," and "Other" cost categories -- for both State-owned and leased space.

2. Total and percentage change in actual occupancy costs from the preceding reporting period, in the aggregate and in each cost category specified in number 1 above.

3. Total number of leases of State-owned property and sub-leases of State-leased property executed with non-State entities and total revenue from these leases and sub-leases.

4. Total number of sales of State-owned property and total revenue and use (or plans for use) of revenue from these sales.

This information should be reported in aggregated totals for the State as a whole and in disaggregated totals by department for DGS and the other 14 property-owning departments, with activity in all other departments constituting an "Other" reporting category. We further recommend that DGS identify which current requirements for annual reports should be deleted were this recommendation to be implemented.

Liaison with the 14 Departments. We recommend that the Department of General Services schedule meetings at least quarterly to bring DGS staff together with the business service officers from all 14 affected departments. The purposes of these meetings should be to (1) reinforce the State's commitment to the strategic goals for property management set by DGS, (2) discuss the business service officers' experience in finding effective means of implementing the strategic goals and accomplishing the departments' own measurable objectives, (3) identify the business service officers' training needs related to pro-active assets management, and (4) evaluate the adequacy of incentives currently available for achieving pro-active assets management in State government and/or identify additional incentives needed at the department level to encourage aggressive implementation of the strategic goals.

Coordinated ADP Systems. We recommend that the Department of General Services develop a proposal and request funding for a coordinated system of automated data processing. The system should be accessible by business service officers in the other 14 property-owning State departments -- and in other departments to the extent the same data are needed. We further recommend that DGS standardize cost category definitions, data collection, and data analysis for real property inventories and train the business service officers to implement the standards and procedures designed by DGS (see our recommendation regarding a "central inventory" for additional related concerns and details).

C. STRUCTURE PERFORMANCE INCENTIVES TO BE RELATED TO MEASURABLE OBJECTIVES

We recommend that the Governor direct the Departments of Finance, General Services, and Personnel Administration to develop guidelines for awarding incentive pay to State property managers. We recommend that these guidelines and eligibility for incentive pay apply only to property managers in the Department of General Services and the 14 other property-owning departments. Property managers in the 14 "non-DGS" departments should be eligible to compete for bonuses only if their departments have adopted operational plans to implement DGS's strategic goals for pro-active assets management and only if DGS has approved those plans.

The guidelines should address the following concerns:

* Development of a documented baseline occupancy cost (see Recommendation B for specified elements of this cost) for each type of space (office or warehouse, for example) occupied by each of the 14 property management departments, an aggregated baseline occupancy cost for each type of space owned or leased and managed by DGS, and an aggregated baseline occupancy cost for each type of space occupied for State operations overall (excluding university systems).

* Options for reducing occupancy costs and/or generating revenue through alternative uses of currently owned property.

* Procedures for initiating disposition of underutilized properties and evaluating disposition alternatives. ("Disposition" includes selling, leasing, or otherwise restructuring ownership.)

* Options for setting measurable cost control and/or revenue generation objectives against which performance outcomes can be evaluated and incentive payments can be calculated in proportion to the extent of accomplishment.

* Procedures for establishing eligibility and calculating exact amounts due as incentive pay.

We recommend that departments which succeed in reducing occupancy costs and/or generating revenue should be allowed to retain 50 percent of those savings and/or revenues in their budgets for one year. This "budget surplus" should be used to fund bonuses earned by high-performing property managers as well as one-time-only expenditures for program or administrative efficiency improvements. The remaining 50 percent should be returned to the General Fund. We believe this incentive should remain at the 50 percent level in all years in which any department reduces its occupancy cost or increases revenue derived from pro-active management of its properties.

D. REDUCE STAFF DUPLICATION

We believe the present condition of State property management, as described in this report, may have encouraged unnecessarily high staffing ratios. Therefore, we recommend that the Governor ask the Director of Finance to analyze the current staffing level for property management in State government. The functional categories for personnel analysis should include, but not necessarily be limited to:

* architecture;
* engineering;
* space planning/space alterations design;
* maintenance and repairs;
* appraisal;
* real estate acquisition and sales; and
* lease negotiation and management.

The analysis should include a review of the need for existing positions to perform the above functions in at least the 14 property-owning departments in addition to the Department of General Services.

We recommend that the Department of Finance seek to provide the following information by department:

° Number of positions in each functional category;

° Annual cost of positions by functional category and by fund; and

° Where applicable, number of positions in each functional cateogry established pursuant to specific statutory provisions.

We believe such an analysis is necessary to determine the extent to which positions established in other departments duplicate the centralized functions currently assigned to the Department of General Services. We recommend that the Director of Finance identify in the Governor's Budget for 1987-88 those property management positions proposed for elimination.

Finally, we recommend that the Departments of Finance, General Services, and Personnel Administration cooperate to set guidelines for determining staffing needs in line with the operational plans to be developed pursuant to our recommendation to "structure organizational accountability."

E. CREATE CENTRAL AUTOMATED INVENTORY OF REAL PROPERTY OCCUPIED FOR STATE OPERATIONS

We recommend that the Governor and Legislature adopt the following budget control language in the support budget for the Department of General Services in the Budget Act of 1986:

> "The Department of General Services shall submit to the Legislature by December 15, 1986 a plan for completing a central automated inventory of State-owned and/or State-occupied property. The Department shall include in the plan (a) an itemization of data to be included for each property in the inventory, (b) criteria for properties for which estimates of market value shall be included in the information stored and regularly updated in the inventory (as such information becomes available); and (c) provisions for access to the inventory by all State departments and agencies."

We recommend that the data base for a central inventory of real property owned and leased by the State include the following:

1. Building address or land parcel location
2. Size: gross square feet and net square feet per building and acres per land parcel
3. Type
   * Buildings: office, warehouse, etc.
   * Land: agricultural, coastal, etc.
4. Total square feet for amenities such as computer, conference, hearing, lunch, and/or locker rooms
5. Current tenant and use
6. Terms of tenancy
7. Current rental rate per square foot or acre per month for leased buildings and land
8. Buildings: Annual costs (based on prior fiscal year) of facility operation per square foot (including Operating Cost, Overhead, and Total Cost)
9. Date of last appraisal, where applicable
10. Most current appraised market value, where applicable
11. Scheduled expenditures for deferred maintenance, where applicable

We further recommend that DGS establish criteria for buildings on which data items 7 through 11 above should be collected and stored. It may be useless to order appraisals for radio equipment storage facilities, for example, simply in pursuit of a complete inventory. We believe implementation of the pro-active assets management pilot project would help the Department of General Services to be strategically and systematically selective in assessing the need for data to be included in a central inventory of the State's real property.

F. INCREASE EFFICIENCY OF PROCESSING SPACE ACTION REQUESTS

We recommend that the Department of General Services simplify processing of space action requests (Standard Form 9's). Specifically, we recommend:

1. Analysis of the flow of documents to facilitate simplification of the review and approval of space action requests;

2. Identification of the items of information important to retain on all space action requests, identification and elimination of non-essential data, and development of a single form for recording, and of procedures for storing, selected data;

3. Identification and removal of as many barriers as possible to maximizing the number of alternative locations available to State agencies (for example, large deposits currently required of bidders);

4. Design of data summary forms appropriate for interface with an automated information system for storage and timely retrieval of important data pertinent to anticipated changes in space requirements (see Appendix B for suggestions regarding data coding); and

5. Setting of strategic goals for lease management to enable State-controlled leasing operations to capture the benefits of market conditions favorable to lessees.

G. TRAIN STATE PROPERTY MANAGERS

We recommend that both building managers and business service officers be required to complete the Building Owners and Managers Association's training course and receive designation as Real Property Administrators in order to be eligible for promotion to, or retention in, supervisory positions in either civil service classification. We further recommend that the State Personnel Development Center analyze the additional property management training needs of State building managers and business service officers and develop a curriculum and class schedule for these civil service classifications to be offered in State fiscal year 1986-7 and thereafter.

H. ESTABLISH MASTER CONTRACTS PROCESS FOR SPECIAL SERVICES

We recommend that the Department of General Services establish a bidding process to select in multiple areas around the State special services contractors who pre-qualify under the terms of a master contract. Separate master contracts should be executed to obtain at least but not limited to the following services:

* Emergency building repairs
* Lease brokerage
* Real estate market analysis

I. REPORT VALUE OF AND INCOME FROM STATE'S PROPERTY IN THE GOVERNOR'S BUDGET

We recommend that the Governor direct the Department of Finance to report in the annual Governor's Budget the estimated value of property owned by the State and current revenue derived from State ownership -- as such information becomes available -- both for the State as a whole and for individual departments.

APPENDICES

Appendix A

LITTLE HOOVER COMMISSION SURVEY OF STATE DEPARTMENTS OCCUPYING 50,000 SQUARE FEET OR MORE OF OFFICE SPACE IN 1984-85

Methodology

In December 1985, the Commission on California Government Organization and Economy (the "Little Hoover" Commission) surveyed the 45 State departments that -- according to Department of General Services records -- occupied 50,000 square feet or more of office space during State fiscal year 1984-85 (see survey instrument on the following page). Of the 45 surveyed, 37 departments, or 82.2 percent, responded.

Troubleshooters analyzed the survey data and prepared tables for use in this report. Summaries of the data appear on the following pages.

LITTLE HOOVER COMMISSION
Property Management Study Questionnaire

Data Requested for 1984-5

Department/Agency: 45 were surveyed; 37 (82.2 percent) responded

Total Square Feet of Office Space Currently Occupied: 13,969,214

Total Number of Employees: 84,201

Average Square Feet per Employee: 165.9

Total Square Feet in State-Owned Space: 23,638,352[a]

Owned by: ____ General Services 3,978,663 square feet
____ Other (please specify): 18,205,224 square feet

Of all State-owned space occupied, please indicate number of square feet used for:

Office Space: 7,393,216

Storage: _____

Other: _____

Total Square Feet in Leased Space: _____

Of all leased space occupied, please indicate the number of square feet used for:

Office Space: 6,575,998
Average Monthly Rent per Square Foot: $ 0.913[b]

Storage: _____
Average Monthly Rent per Square Foot: $ _____

Other: _____
Average Monthly Rent per Square Foot: $ _____

Do you have any leases that were not negotiated and/or executed by General Services:

8[c] Yes 29 No

If "yes," please comment:

BUDGETING. How much of your budget in 1984-85 was dedicated to:

	MAINTENANCE/REPAIRS	JANITORIAL SERVICES	GROUNDSKEEPING	TOTALS
General Services	$ 3,198,843	$ 5,598,493	$ 541,594	$ 9,338,930
Contracts	3,777,593	887,828	245,678	4,911,099
Dept. Employees	3,034,084	11,414,395	1,714,772	16,163,251
TOTALS	$10,010,520[d]	$17,900,716[d]	$2,502,044[d]	$30,413,280[d]

PROPERTY MANAGEMENT MIS. Is your internal system for monitoring space utilization:
1 Fully Automated 9 Partially Automated 26 Manual 1 No Response

If automated, please indicate which commercial software (if any) you use:

Notes:

[a] This total includes 1,454,465 square feet for which the ownership breakdown was not provided.

[b] Weighted average

[c] Included leases for the following purposes:

* Short term: seasonal use, training sites for one day or several days, emergency storage (for example, narcotics seized as evidence)

* Intra-/and intergovernmental agency leases

[d] These figures exclude costs at institutions to provide these services (for example, prisons and State hospitals). They also exclude costs reported by the Department of General Services, as follows:

	MAINTENANCE/ REPAIRS	JANITORIAL SERVICES	GROUNDSKEEPING	TOTALS
General Services	$13,959,908	$18,826,308	$2,587,893	$35,374,109
Contracts	1,443,980			1,443,980
Dept. Employees	(13,959,908)	(18,826,308)	(2,587,893)	(35,374,109)
TOTALS	$15,403,888	$18,826,308	$2,587,893	$36,818,089

TABLE A-1

Comparison of DGS Inventory
With Commission Survey
Square Feet and Cost of State-Owned and Leased Office Space

1984-85

	Square Feet of State-Owned Office Space		Square Feet of Leased Office Space		Average Lease Rate/ Square Foot/Month	
	DGS Inventory[1]	Commission Survey	DGS Inventory[1]	Commission Survey	DGS Inventory[1]	Commission Survey
Air Resources Board	--	7,433	107,027	96,570	$ 0.91	$ 0.83
Alcoholic Beverage Control	29,789	25,510	46,488	52,041	0.93	0.90
Board of Equalization	233,704	223,957	209,110	227,329	0.94	0.94
CalTrans	2,087,457	1 029,114	204,178	335,000	1.35	1.81
Conservation	38,799	48,152	36,535	32,895	1.05	0.915
Consumer Affairs	49,254	78,482	239,386	263,631	$ 1.03	$ 0.92
Controller	80,933	73,672	121,111	138,693	0.93	0.95
Corporations	10,912	10,785	46,069	51,647	1.45	1.60
Corrections	7,560	11,410	149,395	340,482	1.27	1.12
Developmental Services	75,582	80,872	4,374	4,375	1.23	1.08
Education	168,323	101,912	135,197	114,746	$ 1.50	$ 0.979
Employment Development	635,228	1,271,712	1,614,293	1,614,626	0.77	0.80
Energy Commission	96,665	55,117	--	--	--	--
Fair Employment & Housing	25,251	21,353	38,505	34,496	1.00	0.98
Finance	67,419	68,167	3,160	3,160	1.76	1.80
Food & Agriculture	229,347	179,636	93,273	65,425	$ 1.02	0.678
Forestry	53,320	255,641	12,532	11,169	2.22	0.94
Franchise Tax	52,250	52,380	529,604	466,208	0.37	0.47
General Services	177,565	177,565	274,643	281,486	0.76	0.815
Health & Welfare Data	3,785	--	95,209	57,182	2.01	2.054
Health Services	395,279	454,596	343,450	305,519	$ 1.04	$ 0.95
Highway Patrol	172,657	382,847	121,191	83,366	1.48	1.128
Housing & Community Dev.	7,905	2,394	98,300	103,752	0.91	0.865
Industrial Relations	394,733	396,440	220,306	231,677	0.98	1.06
Insurance	2,681	968	64,633	59,723	1.11	1.25

	Square Feet of State-Owned Office Space		Square Feet of Leased Office Space		Average Lease Rate/ Square Foot/Month	
	DGS Inventory[1]	Commission Survey	DGS Inventory[1]	Commission Survey	DGS Inventory[1]	Commission Survey
Justice	336,265	326,025	316,308	302,620	$ 1.37	$ 0.83
Mental Health	75,025	57,726	68,889	43,601	1.05	1.054
Military	--	--	73,350	54,740	0.92	0.83
Motor Vehicles	29,290	1,282,530	191,419	200,688	0.72	0.67
Parks & Recreation	44,455	85,382	99,798	166,024	1.01	0.75
Personnel Board	70,430	67,210	60,508	7,416	$ 1.02	$ 0.84
Social Services	213,346	214,594	422,024	415,627	1.05	0.928
Teale Data Center	--	--	75,548	73,027	1.39	0.76
Veterans Affairs	35,020	29,307	27,181	24,763	0.89	0.97
Water Resources	238,340	320,327	118,978	117,728	0.88	0.613
Water Resources Control	115,347	95,011	36,268	35,374	$ 0.88	$ 0.81
Youth Authority	3,741	3,180	209,848	159,192	1.01	0.816
TOTALS[2]	6,257,657	7,491,407	6,508,088	6,575,998	$ 0.951[3]	$ 0.913[3]
DIFFERENCE						
Amount		+1,233,750		+ 67,910		$-0.038
Percent		+ 19.7%		+1.0%		-4.0%

Notes:

1 Data reported as of February 26, 1985.

2 Totals exclude data for departments that did not respond to the Commission's survey.

3 Weighted averages

Fish and Game	67,082	*	35,870	*	$ 1.17	*
PERS	135,279	*	750	*	1.00	*
Public Utilities Com.	145,789	*	41,578	*	1.68	*
Real Estate	28,825	*	40,564	*	1.11	*
Rehabilitation	65,731	*	401,245	*	0.93	*
Secretary of State	11,532	*	49,886	*	0.95	*
State Lands Commission	17,291	*	32,743	*	0.50	*
Sup/Appellate Courts	133,573	*	85,431	*	--	*

*No response to Commission survey

Appendix B

CASE STUDY OF TRANSACTIONS

Part I

Purpose

In October 1985, the Commission requested that the Office of Space Management (OSM) in the Department of General Services (DGS) assist the study consultants in conducting a case study of transactions processed by OSM. The purposes of the case study included enabling the consultants to:

1. Review and evaluate the processing of documents pertinent to DGS's facilities management responsibilities;

2. Discern patterns of decision making; and

3. Review and evaluate DGS's timeliness and overall efficiency in meeting the ongoing needs for space to accommodate State operations.

Sampled Cases

OSM advised the Commission it had completed a total of 1,989 facilities management transactions during fiscal years 1983-84 and 1984-85. The Commission then requested that a 4.5 percent random sample (90 transactions) be selected from the total transactions listed in chronological order by transaction number. For each transaction number in the sample, the Commission requested that the file be pulled and the following documents copied:

1. Standard Form 9: Space Action Request: A requesting agency is required to submit a Space Action Request in order to initiate processing and decision; this form is required for every category of facilities management activity.

2. Advertisement for Space to Lease: (where applicable)

3. Standard Form 6: Lease Negotiation Summary Report: (where applicable)

4. Standard Form 4083: Space Planning Data

5. Standard Form 173: Program Data: Standard Forms 4083 and 173 are used by OSM staff to record their efforts to evaluate the space action requested in a Standard Form 9 according to space allocation criteria specified in the State Administrative Manual.

Not all transactions are "completed" -- the term OSM uses when the action requested by an agency is accomplished. A similar group, "cancelled" projects, consists of those which have entered the system via the Standard Form 9 but for a variety of reasons are never fulfilled. These could not be sampled in the same way because data were available for only the 1984-5 fiscal year.

All requisitions for carpet and for lease terminations are segregated from the others and are numbered, recorded, and handled idiosyncratically. These were not sampled.

Other Data Sources. Initially, we proposed to limit our analysis to data which could be obtained from the sampled files. However, we quickly learned that DGS files are set up and maintained solely for intradepartmental use and are difficult for outsiders unfamiliar with agency practices to interpret. Only one of the documents we requested is mandatory -- the Standard Form 9 -- and it was missing from three percent of the sampled cases. Consequently, we found it necessary to employ additional methods of data gathering: interviews with DGS personnel and examination of actual files, systems, records, and computer-generated data. The analyses presented in this Appendix are based on data obtained through an amalgam of these methods.

Records. Besides the action-initiating Form 9, the only requested document that turned out to be useful was Standard Form 6: the Lease Negotiation Summary. Sixty-nine percent of the sampled cases did not involve space requests, however, and only 39 percent concerned space in State-owned buildings. Consequently, in most cases, the documents failed to provide information about the outcome of the transactions. We looked to the files themselves; we studied 25 in detail and at length. They, too, proved disappointing. Many contained only two forms; presumably, other papers had been either never completed, retained in personal files, or purged before storage in central files. Based on our review of existing records, we concluded that the only data that were both valuable and common to all files were the dates of project start, completion, and cancellation, and a measure of magnitude (expressed either as cost of alterations or size in square feet -- often merely a restatement of the original estimate made by the client agency). Since these were contained in the computer file, we obtained an automated tabulation for the sample cases which became the basis for most of the tables presented in this Appendix.

Overview of System

It is difficult to understand how the facilities management system works without knowing what some of its components are and each one's function within it. Therefore, we will define components in the management information system.

A file consists of documents concerning a space, or manipulations to a space. When a new space is to be found, a file is set up for that space and remains "open" until the space is relinquished. Within a single file may be found evidence of the original request for space as well as any number of actions desired by the occupying agency regardless of whether denied or granted, whether concerning the space itself or manipulations to or within it, whether accomplished or not. At minimum, a file should contain Forms 9 and 100 (Form 100 is a "Form 9 Review and Transmittal Sheet"), although three percent of the sampled files lacked the former and the latter was missing from an undetermined number.

A transaction, on the other hand, concerns a single (or several associated) requests for action initiated by a client agency when it submits a Form 9. At that time, should no active file already exist for that particular

space, one will be set up. A space action request becomes a "transaction" only if the Form 9 is correctly filled out and signed by appropriate persons, requests an action which falls within the domain of DGS, and is judged by OSM to have merit. Guided by workload standards, the Unit Manager considers proposed cost and size estimates and estimates time and completion target dates for each project. These are recorded on Form 200, which remains with the Form 9 until a transaction has been completed, cancelled, or denied. At each stop, the reviewer initials the appropriate spaces on Form 200; this process usually takes four days.

Finally, a project is assigned a transaction number (T#). Transaction numbers are assigned by the Project Coordinator (a clerk in the Administrative Unit) according to the nature of the space action requested. There are three types, distinguishable by the T# assigned:

TYPE A: Carpet
8906 0001 - 8906 nnnn

TYPE B: Lease Termination
8907 0001 - 8907 nnnn

TYPE C: Regular
YYMM 001 - YYMM nnn

Only Type C transactions were sampled. Transaction numbers are assigned consecutively and only at the behest of authorized persons. Once assigned, they are recorded in a log book, a looseleaf binder kept for each calendar year. In exceptional cases, a transaction number may be assigned on the authority of a senior staff person even when a Form 9 has not been filed. These are generally emergencies -- such as fires in State buildings or preliminary telephone requests. A file is then officially established and a Form 100 is appended to the front cover. The Form 100 remains on the cover until the transaction has been completed or cancelled, at which point the Form 100 should be added to the file itself. Form 9s which do not become transactions are sent back to the client agency; copies are filed in the Returned Form 9s binder, which is kept for each fiscal year.

From the log book, transaction numbers and project time estimates are keyed into the computer which periodically generates various managerial and billing reports. The newly opened or re-opened file is sent on to the unit assigned to process it.

Client agency billing is computer controlled and varies according to project type and status.

- Leasing Services: 75 percent are billed monthly as a percentage of monthly rent.
- Other Services: Billed monthly on an hourly basis.
- Cancelled Projects: Billed at the end of the month of cancellation. All as yet unbilled hours are charged, whether or not the project involved leasing services.

- Delegated Projects: Billed as if the project had been cancelled. Hours are charged as they have been reported to Unit Managers' billing ledgers on employees' weekly time sheets; billable hours are differentiated as "planning," "leasing," or "managerial" time.

COMPUTER TIME SHEETS	COMPUTER MANAGER'S REPORTS	COMPUTER BILLING LEDGER
Computer lists transactions assigned to each employee, who weekly reports actual time spent working on project.	Computer lists all open transactions assigned to Unit, reporting estimated hours and actual hours spent to date on each for monthly managerial review. Manager may extend estimated hours, augment allocated hours, or close transaction and request that a new T# be assigned.	For each client agency, lists transactions and hours spent for each. Monthly totals are transmitted to accounting department which issues invoice to client.
Usual Caseload: Planners: 35-40 Lease Agents: 25-40	Usual Caseload: 200	

Apart from requests for carpet and lease terminations, transactions handled by DGS are of four main types:

1. Procurement of space;
2. Alterations to leased premises;
3. Alterations to State-owned premises; and
4. Procurement of equipment or furnishings.

Processing is simplest for the latter two transaction types. Very little paperwork is involved or retained in the files for alterations in State-owned space or procurement of equipment or furnishings; for most, only relevant signatures and notations of project magnitude and completion date appear on the Form 100.

Procurement of Equipment or Furnishings. The Form 9 usually includes a purchase estimate (Form 66) obtained from the Procurement Office, as well as a description of the requested items and of the need for them. Often, the client agency attaches a sketch. The Planner reviews the project to verify need; if justified, the Planner submits the Form 66 to the Assistant Chief for signature. The Project Coordinator forwards Form 66 to the Procurement Office (which deals thereafter with the client agency) and enters the OSM completion date in the log book and computer.

Alterations to State-Owned Premises. The Form 9 may have a sketch appended, showing the desired alteration. The Planner either executes or approves detailed drawings for and sets specifications of the quality of work and materials to be used. The Unit Manager and Fire Marshall then review the project. If they approve it, drawings and specs for the project are transmitted by the Project Coordinator to the Office of Buildings and Grounds (OBG) which acts as contractor for DGS, in that most further contact with the client agency and the actual construction are OBG's responsibility. OSM staff may inspect the job. When work is done and approved, its magnitude (cost and size) and completion dates are entered in the log book and computer.

Alterations to Leased Premises. Procedures parallel those for alterations to State-owned premises, except that drawings and specs may be less specific to allow latitude to lessors. Unit Manager and Fire Marshall approval must be secured. Drawings and specs are sent to the building owner who sends out requests for bids and arranges contracts for the work. Costs must be equal to or less than those specified by DGS. The Lease Officer amends the lease to account for alterations, specifying the costs and extent of changes. DGS makes a lump sum payment to the lessor upon approved completion of the work which, ideally, has been inspected three times by OSM. The number of inspections is dependent upon considerations of magnitude and geography. These take place before the plans are drawn, during construction, and upon completion of the job. The Planner and Lease Officer mesh their separate files and return files to Administration, where crucial data are entered in the log book and computer.

New Location Transactions are extremely complex, and are here condensed to essentials. The flow chart which describes them consists of three 11 by 17 inch sheets.

a. The Planner reviews the configuration of space requested and analyzes the space problem in light of present and projected staff requirements.

b. The OSM team determines whether State-owned space is available and, if so, assigns it or, if not, initiates a search for leased space.

c. Depending on the monthly rent estimate, space may be either leased directly, negotiated, or bid upon.

d. The Lease Officer obtains the Unit Manager's approval of a site, prepares the lease, gets the Unit Manager's approval of documents, and forwards the lease to lessor.

e. The Lease Officer then prepares a lease summary, meshes files with Planner's files, and forwards all files through designated channels.

f. Data are entered into the log book and computer.

Project Type. The classification of projects by type is pivotal at DGS, although the importance placed on the concept or its potential usefulness doesn't seem to have been integrated into its management practices or information system. Projects of various types appear to have been assigned a two-digit numerical code; upon closer inspection, however, they seem simply to have been numbered. The two-digit code OSM uses is partially as follows:

Project Type	Project Name
70	Addition to existing Space
71	Re-plan existing space
72	Alterations
76	Furnishing review: equipment
77	New space: office
78	New space: warehouse
80	Reduction of space
82	Study
90	Addition to existing space: open-office-landscaping (OOL)
91	Alterations: (OOL)
92	New Space: (OOL)

The lists seem to have been precipitated by a computer system "need" for a concise way to differentiate various projects rather than by an attempt to devise a usable management tool. Items appear haphazardly -- only frequency of request might determine whether or not a project makes the list. The numbers give no clue to name -- "alterations," for example, may be typed 21, 30, 35, 72 or 91. "Lease renewal" is inextricably linked with "alterations" in the system -- we doubt that they are always combined in reality. These difficulties were acknowledged by DGS in a cover letter we received during the course of our study:

> "Enclosed ... [find] counts of alterations requests... extrapolated from our Project Management System. You should note that there are other types of projects that may involve alterations.... These were not included... as we have no ready means by which to separate out only the ones that included alterations." [October 15, 1985]

Numbers, unless they are part of a coherent code system are simply shortened names -- management cannot get at data, cannot combine or disaggregate them, cannot make analyses or provide them for others.

A usable system should, at a minimum:

- cover all cases and combinations;
- enable any and all information to be combined or collapsed in various ways for varying purposes; and
- be conceptually clear.

The following conceptual categories seem to be those DGS finds relevant.

A. SPACE OWNERSHIP
   1. Leased
   2. Owned
   9. Not space related

B. SPACE TYPE
   1. Conventional office
   2. "Open landscaped office" (OOL)
   3. Warehouse
   4. Land
   5. Trailer
   6. Radio site
   7. Boatdock
   8. Relocatable building
   9. Other

C. SPACE SIZE
   1. "New" (provide/find/initiate)
   2. Add to
   3. Reduce
   4. Build
   9. No action regarding

D. SPACE SHAPE
   1. Alterations
   2. No alterations
   3. Alterations possible ("new space"only)

E. TIME
   1. New space sought
   2. Renew lease
   3. Extend lease
   4. Amend lease
   5. [Terminate lease] [Relinquish space] (presently Type B transaction)
   9. Not time related

F. PROCEDURE
   1. Direct
   2. Option
   3. Bid
   4. Assign
   9. No procedural constraints

G. OTHER ACTION
   91. Study
   92. Plan/replan
   93. Review: documents
   94. Review: equipment/furnishing
   95. [Review: carpet] (presently Type A transaction)

One possible solution would be to use a six digit code based on these considerations -- many people are afraid of longer codes because the codes look complex at first glance and people think that computer storage will be expensive. A longer code is not complex when approached logically, step-by-step; computer space is being absorbed at present with complete addresses, so does not seem to be at a premium in this case. A better coding system would allow management to array data on any one factor by any other(s), to gain access to material it has presently stored but can't use, and to make studies of efficiency, efficacy, and cost among and between various teams and administrative areas. Examples based on categories listed on the previous page are as follows:

Form 9 Request	Project Type Numbered	Coded
° Lease large new landscaped office (which may need alterations)	23? 24?	121313
° Add conventional office space, alter, and amend lease	01? 30?	112249
° Reduce (owned) open office space and remove excess screens	80? 71? 91?	223299

Workload Standards or Production Norms. In an attempt to acknowledge that some projects of the same type differ in complexity and difficulty, DGS has chosen to measure and rank them on the basis of magnitude expressed in estimated cost or size.

At some time in the past, staff hours spent on various projects were collected and an average obtained. This average is used as a benchmark against which current productivity is measured. Planning, leasing, and management times are differentiated, probably because of differential billing rates.

Comparisons of the difference in time actually spent on a project with time DGS expects will be spent should serve both as measures of the relevance of norms and the productivity of the staff. Note, however, that if the norms are not (or are no longer) meaningful, not only will attempts to assess productivity be irrelevant or of little value, but the norms themselves may be detrimental in that inefficiency may be either unrecognized or tacitly encouraged. Ideally, there would be little or no deviation, indicating that realistic standards had been set.

In Tables B-4 and B-5, summary data are presented showing average deviation from standards for each project type. The numbers are difficult to interpret; the ranges are considerable and numbers in some categories are small. (Calculations were made for each case, then means were computed.)

Take, for example, "Negotiated New Space": average deviation was 21.4 hours above the time actually spent, but the range of deviations was from 45.5 hours below standard to an excess of 226 hours. Reasons for such wide ranges (which were typical) were elusive until it was discovered that travel time to and from sites was included in the standards and that they do not vary from area to area but only by project magnitude. Obviously, this builds a great deal of slack into the system and probably disguises the fact that projects take longer than they should and that they usually lag six months behind the time clients request service. This is to be expected, since the standards were derived from actual experience as opposed to having been chosen as goals to be attained, thereby encouraging increases in efficiency and effectiveness of client service. It appears that, were they to be recalculated based on recent activity alone, they would indeed be lowered.

It is the practice of OSM to assign a new transaction number when a project "goes sour" or "takes too long." This effectively decreases the upper ranges on which standards are based. Depending upon how often it is done, the practice may seriously distort the base. The frequency of this occurrence during the period upon which the norms were based is not known. There seems to be no reason for making two projects of one, save trying to look good. Facts are obscured and realistic standard setting is sabotaged. Surely, even a bureaucracy must have the grace to recognize that unforeseen circumstances often upset even the best laid of plans and be able to accept occasional set backs.

We strongly recommend that both the conceptual and empirical bases for project types and workload standards be rethought and formulated as a step toward making full use of management skills and technological tools so that both client agencies and the people of California may be more efficiently and effectively served by DGS. A semi-automated data system has been superimposed upon one that remains paper-heavy. Some of its older systems should be abandoned or adapted to the new. The demands made by the new could be made to work for the agency rather than, as at present, further muddying its systems and confusing its staff.

Part II

In Table B-1, the dispositions of all transactions for a calendar year are arrayed as they were recorded in December 1985.

We seriously question the practice of treating transactions requesting carpet and lease terminations separately; together they represent only about eight percent of projects. Perhaps because the State requires a "carpet report" each year, those transactions are separated from the rest -- but were they to be coded as proposed elsewhere in this report, reports could be generated with ease by computer. OSM management explained that lease terminations are so simple that they need not go through the process. But we wonder whether treating them differentially does not add work in itself.

Note that almost four percent of regular transactions initiated in 1983 had not been completed by the last month of 1985; since the project types of these transactions were not available, they cannot be discussed further except to say that the elapsed time for four percent of the sample cases was one year and six percent took longer than a year to complete (average: 17 months), so that this figure appears quite consistent.

Also of interest are transactions which were delegated to a client agency. If these are typical of those which appear in Table B-2, and we have no reason to believe they are not, most involve minor electrical, coaxial cable, or computer installations.

TABLE B-1

Disposition of Transactions For Calendar Year 1983

Type[1] and Disposition		Number	Percent
TYPE A:	Carpet	84	100.0
TYPE B:	Termination	50	100.0
TYPE C:	All Other	1504	100.0
	Open (as of 12/7/85)	53	3.5
	Complete	1078	71.6
	Cancelled[2]	287	19.1
	Void[3]	37	2.5
	Denied, Disapproved[4]	13	0.9
	Delegated to Agency[5]	35	2.3
	New Transaction Number	1	0.1

Notes: See next page.

Source: Department of General Services
Office of Space Management, "Log Book" (CY 1983)

Notes to Table B-1:

[1] Transactions are of three major types, here simplied as:

A: Request by an agency for carpeting, whether alone or in conjunction with other action requests on a Form 9.

B: Termination of a lease. Does not require a Form 9.

C: The most common; assigned when a Form 9 is received that is neither an A nor a B type.

[2] "Cancelled" transactions consist of those Form 9 requests which are withdrawn by the initiating agency after transaction has been entered in the computer system and some work has been done on it.

[3] "Void" transactions are so marked in log for any of the following reasons:

a. Assignment of a Type A or B designation. (It is assumed that such a designation was in error.)

b. Supervisory decision that request "should not have been assigned a T#," "File set up in error," "Will not be assigned," or "Form 9 not necessary."

c. Agency request: "Will resubmit," "Asked for Form 9 back," or "Cancelled before reaching computer."

d. Duplicate request.

e. Combined with another T#.

[4] Projects which have been denied by someone along the line because unnecessary, not cost effective, lease will expire soon, etc.

[5] Delegated projects are those which (usually because of time constraints) DGS is unable to fill or feels that initiating agency can do better itself.

TABLE B-2

Returned Form 9s by Reason for Return

Reason	Number	Percent
TOTAL	29	99.8*
Delegated to Agency	15	51.7
Transaction number assigned in error (no action required)	3	10.3
Disapproved	3	10.3
Cancelled before file set up	4	13.8
Duplicate	1	3.4
Void (combined with another transaction)	1	3.4
Form 9 returned to agency	2	6.9

* Does not add to 100.0 due to rounding.

Source: Department of General Services
Office of Space Management, "Returned Form 9s File" (FY 1983-84)

In Table B-2, the breakdown of returned Form 9s for one fiscal year is displayed. These represent requests that never attained transaction status. The majority were delegated to the client agency. DGS might study delegated tasks and, should they prove consistent, consider relegating certain operations to client agencies on a routine basis.

TABLE B-3

Difference Between Need Date and Completion Date
for Leased, Owned, and Total, when Need Date Provided,
Not Provided*, and Needed "As Soon As Possible"*
for Sampled Completed Cases**

Number Of Months	Need Date Provided			No Need Date Provided			Needed As Soon As Possib		
	Total	Owned	Leased	Total	Owned	Leased	Total	Owned	Leased
TOTAL Cases Late:	48	19	29	18	8	10	17	3	14
0	1	1							
1	5	3	2	2	2		3		3
2	3	2	1	4	1	3			
3	2		2	1		1			
4	9	4	5	3	2	1	2	1	1
5	3		3	4	1	3	2	1	1
6	3	1	2	1	1		2		2
7	3	2	1				2		2
8	2	1	1						
9	5	2	3	1		1	1		1
10	4	1	3				2	1	1
11	1		1				2		2
12	1	1					1		1
13	2		2						
14				1	1				
16				1		1			
18	1		1						
19	2		2						
36	1	1							
TOTAL Cases Early:	1		1						
2	1		1						
Average Months Late:	7.3	6.7	7.7	5.0	4.6	5.3	6.5	6.3	6.5

Notes: *When need date was "ASAP" or when no need date was provided on Form 9, the date used here is date of Form 9.
**Three cases had no Form 9; three Form 9s were not dated.

Source: Raw Data from Department of General Services
Office of Space Management

Analysis: Troubleshooters

When requesting an action, client agencies may specify deadlines in the form of "need dates." Some write "as soon as possible;" others don't include a date -- whether either should be interpreted as a sign of hope or despair is unclear when one examines Table B-3 to see how expeditiously they are handled. There is very little difference among them. All but two projects were completed later than the specified or inferred dates -- usually by more than six months. Projects involving State-owned space were generally accomplished faster; in all cases, the average time to completion was shortest when the need date space was left blank and longest when a specific date was supplied. Whether client agencies allow for the predictable lag when making requests is unknown.

TABLE B-4

Completed Cases Involving Leased Space -- Summary Data

Mean Hours per Project Type in Sample[2] for Workload Standards,[1] Actual Time Spent,[2] and Deviation from Standard,[3] by Project Type

Project Type and Name	Number Cases	Workload Standard	Working Hours Spent	Deviation from Standard
TOTAL: Leased Space	55	51.7	48.9	2.8
26 Replan Existing Space	1	177.0	134.5	42.5
30 Alterations	11	26.2	35.8	- 9.6
35 Alterations and Lease Renewal	3	38.0	55.3	-17.3
40 New Space: Build to Suit	1	338.0	337.5	0.5
41 Document Review	3	7.0	19.0	-12.0
42 Lease Amendment	2	23.5	18.5	5.0
43 Lease Extension	5	12.0	12.3	- 0.3
45 Furnishing Review: Equipment	2	4.5	4.8	- 0.3
46 Lease: Land	1	16.0	28.0	-12.0
48 New Space: Negotiated	13	97.4	76.0	21.4
49 New Space: Office Bid	1	195.0	211.5	-16.5
55 Reduction of Space	1	25.0	43.5	-18.5
56 Lease Renewal	6	25.0	14.4	10.6
58 Lease: Radio Site	2	21.0	14.8	6.3
59 Study	3	32.0	35.8	- 3.8

Notes: See page 20

Source: Raw Data from the Department of General Services Office of Space Management

Analysis: Troubleshooters

TABLE B-5

Completed Cases Involving State-owned Space -- Summary Data

Mean Hours per Project Type in Sample[2] for Workload Standards,[1] Actual Time Spent,[2] and Deviation from Standard,[3] by Project Type

Project Type and Name	Number Cases	Workload Standard	Working Hours Spent	Deviation from Standard
TOTAL: State Owned	35	50.8	30.4	26.0
70 Addition to Existing Space	2	13.5	10.2	3.3
71 Replan Existing Space	1	10.0	7.5	2.5
72 Alterations	17	63.3	49.2	27.1
76 Furnishing Review: Equipment	6	16.2	9.1	7.1
77 New Space: Office	3	59.3	37.2	22.1
80 Reduction of Space	1	4.0	N/A	N/A
82 Study	5	77.0	10.3	66.7

Notes: See page 20

Source: Raw Data from Department of General Services Office of Space Management

Analysis: Troubleshooters

Notes to Tables B-4 and B-5:

[1] "Mean Workload Standard" was derived by summing applicable standards for all projects in sample and dividing by number of projects of each type.

[2] "Mean Working Hours Spent" represents total of managerial, lease officer, and planner hours reported by OSM employees for each project, summed, then divided by number of projects of each type.

[3] "Mean Deviation from Standard" was calculated by subtracting total hours worked on each project from the DGS Workload Standard for that project and size, summing them, and dividing by the number of projects of each type.

Tables B-4 and B-5 are adjuncts to discussions of project type and workload standards. Negative numbers in the deviation column indicate that more time was taken than the norms allowed; all instances involved leased space. Perhaps this reflects differences in travel time, more State-owned space being located in Sacramento, but there is no way to find out, given current data. It should be clear from these tables that it is very difficult to identify areas which may be improved since it is so hard to distinguish project components and probable activities. Management information system improvement is needed in order even to begin to try to improve the management of the system.

TABLE B-6

Completed Cases Involving Leased Space -- Summary Data

Mean Hours per Project Type in Sample for Months Elapsed Time[1] and Working Hours per Month of Elapsed Time,[2] by Project Type

Project Type and Name	Number Cases	Months Elapsed Time	Working Hours Per Month Elapsed Time
TOTAL: Leased Space	55	5.8	8.0
26 Replan Existing Space	1	12.0	11.2
30 Alterations	11	6.2	5.3
35 Alterations and Lease Renewal	3	6.7	8.4
40 New Space: Build to Suit	1	21.0	16.1
41 Client Document Review	3	4.3	6.0
42 Lease Amendment	2	7.5	2.8
43 Lease Extension	5	4.4	2.8
45 Furnishing Review: Equipment	2	2.5	2.3
46 Lease: Land	1	6.0	4.7
48 New Space: Negotiated	13	5.6	16.5
49 New Space: Office Bid	1	11.0	19.2
55 Reduction of Space	1	9.0	4.8
56 Lease Renewal	6	4.3	5.1
58 Lease: Radio Site	2	2.5	8.5
59 Study	3	5.3	3.8

Notes: See page 23

Source: Raw Data from the Department of General Services Office of Space Management

Analysis: Troubleshooters

TABLE B-7

Completed Cases Involving State-owned Space -- Summary Data

Mean Hours per Project Type in Sample for Months Elapsed Time[1] and Working Hours per Month of Elapsed Time[2], by Project Type

Project Type and Name	Number Cases	Months Elapsed Time	Working Hours Per Month Elapsed Time
TOTAL: State Owned	35	5.4	5.4
70 Addition to Existing Space	2	5.0	2.7
71 Replan Existing Space	1	3.0	2.5
72 Alterations	17	7.9	5.9
76 Furnishing Review: Equipment	6	2.2	3.9
77 New Space: Office Bid	3	6.0	7.1
80 Reduction of Space	1	1.0	N/A
82 Study	5	1.8	5.9

Notes: See page 23

Source: Raw Data from the Department of General Services Office of Space Management

Analysis: Troubleshooters

Notes to Tables B-6 and B-7:

[1] "Mean Elapsed Time" is the difference in months between computer-recorded "Start Date" and "Completion Date" for each case, summed by Project Type and divided by number of cases in group.

In 34 cases, no "start date" was recorded. Start dates are assigned by Unit Manager who considers caseload of team. In the 56 cases where start dates were recorded, they varied from the date of their Form 9 date as follows:

0 (same month)	43%
1 month	43%
2 months	8%
3 months	6%

Start dates were assigned in the 34 cases in which no start date was recorded, using those percentages in a precise order: that is, (Form 9 date +) 0, 1, 0, 1, 2, 0, 1, 0, 1, 3, 0, 1 etc. The beginning case was selected at random. Values were assigned in above order unless the assigned date would be later than the completion date. In such cases, the next possible case was chosen and the order maintained. If start date and completion date fell in same month, an elapsed time of 0.5 months was assigned.

[2] "Mean Working Hours per Month of Elapsed Time" was derived by dividing total working hours spent on each project by "elapsed time" for each project, summing the dividends, and dividing by number of projects of each type in sample.

Tables B-6 and B-7 deal with the time which elapses between a project's start and completion -- remember that "start date" is assigned by Unit Manager and is neither the request date nor the date needed. Typically, DGS takes more than five months for a project; staff members spend about five hours per month on projects in State-owned space and eight on those in leased space. Generally, fewer hours per month are spent on shorter than on longer projects. Perhaps if effort were not differentially expended, project time could be shortened. Again, it is difficult to compare cases because of variety in projects -- in their complexity -- and because there are so few examples of many project types. Analyses like these would be more useful if done on all projects of a certain type, even given the limitations of the presently-stored data. The only item that is common to both leased and owned operations in sufficient numbers for comparison is "Alterations" (Project types 30 and 72 respectively). The data are summarized here:

	Alterations to Owned Space PT:30	Alterations to Leased Space PT:72
Number of Cases	17	11
Elapsed time (Mos.)	7.9	6.2
Hours worked/Month	5.6	5.3
Workload Standard	63.0	26.2
Working Hours Spent	49.0	35.0

About the same amount of effort was expended at the same rate, but alterations took one and a half months longer to accomplish in State-owned space. Note that the average workload standard was 63 hours for owned space and 26 for leased, and that the norms were excessive by 14 hours in the first and deficient by about 10 in the second case. An auditor might, at first glance, approve the activity which came in in less-than-planned time without noticing that leased alterations took fewer hours and were accomplished faster.

Appendix C

PROPERTY MANAGEMENT SYSTEMS

	CUSTODY	PRO-ACTIVE ASSETS MANAGEMENT
Definition	• Act or right of guarding property	• Management, administration, or supervision of others' property
Management Characteristics	• Passive: Little or no change is initiated except to correct a problem perceived to be related to custody of the property	• Active: Seeks opportunities for best use of property to maintain or increase its value as an asset
	• Lack of awareness regarding how property owned and/or space occupied contribute to overall income and costs of operation	• Seeks opportunities to reduce occupancy costs (for example, moving out of high cost space, "down-sizing" to minimize space requirements) so as to increase resources available for other purposes
	• Considered one of many business services, often assigned a low priority	• Perceived as a professional speciality; highly trained and experienced professionals are recruited, integrated into top management group
Property Inventory	• Incomplete	• Complete
	• Irregularly updated	• Routinely updated
	• Some information is automated, other information is not automated	• Fully automated
	• Lacks estimates of properties' current value	• Contains estimates of value of owned property
	• Decision making has not been analyzed to identify routine data needs; consequently, the information that can be readily obtained from the system may not be useful	• Easily accessed by personnel with responsibility for meeting established cost reduction or space utilization goals
		• Generates periodic reports containing data in formats designed to support anticipated decision making

PROPERTY MANAGEMENT SYSTEMS

	CUSTODY	PRO-ACTIVE ASSETS MANAGEMENT
Personnel Qualifications	• Minimum requirements for mid-level general management and administration • Premium on experience within that organization • Only specialists require related training (for example, space planners usually have training in architecture or interior design • Training is a low priority (for example, business service officers learn property management on the job)	• Premium on "deal making" skills ar analytical capacity to identify th best opportunity among competing alternatives • Flexibility to augment staff activities with assistance from consulting professionals
Budgeting	• Properties not reported as assets • Lack of awareness regarding value of owned properties inhibits appropriate budgeting for maintenance and repairs needed to maintain or increase value of capital assets • Special repairs and maintenance require budget augmentations	• Value of capital assets is reporte annually • Maintenance/repairs are factored into budget for operations • Budget is based on annual goals fc property management • Emphasis is on concern for revenue which owned properties can return to the organization
Leasing	• Use in-house staff to secure space that meets minimum standards for occupancy for all operations which cannot be accommodated in owned spaced • Standardize requirements and solicit lowest cost bids to provide space • Comply with initial agreements (for example, regarding cost pass-throughs)	• Maximize number of alternatives that meet selection criteria; seek assistance from commercial brokers • Approach lease renewals with same rigor as in initial negotiations; for example, audit landlords' cost increase claims to enable distinguishing between pure rent increases and operational cost increases

PROPERTY MANAGEMENT SYSTEMS

	CUSTODY	PRO-ACTIVE ASSETS MANAGEMENT
Planning	• Property management is not perceived as an activity with significant implications for overall operations. Consequently, decisions are made on a case-by-case basis rather than in a planned sequence designed to achieve strategic goals • Minimal coordinated planning leads to "rich" staffing; for example, maintenance positions established for single buildings or decentralized staff perform functions which will be duplicated by centralized staff	• Planning is centralized to give consideration to overall space needs and opportunities to maximize utilization, minimize costs • Central plans are based on a coordinated process to obtain information generated by all user groups regarding their anticipated space need changes • Annual and five-year goals are stated in measurable terms • Performance is measured according to the extent to which goals are reached • Performance incentives are related to goals (rewards for high performance and/or negative consequences for failure to meet goals, or for wasteful or corrupt actions) • Emphasis is on strategies to maximize value of the organization's capital assets

Appendix D

INDIVIDUALS INTERVIEWED OVER COURSE OF THE STUDY

Mr. Jan Anton
Senior Marketing Associate
ILIFF-THORN

Mr. Bryan Bailey
Staff Leasing Officer
DEPARTMENT OF GENERAL SERVICES

Mr. James M. Barrington
Partner
Audit Department
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Mr. Gerald Beavers
Principal Capital Outlay Analyst
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Ms. JoAnn Blanford
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DEPARTMENT OF GENERAL SERVICES

Mr. Don Dana
Facilities Mgmt Group: Negotiations
WELLS FARGO BANK

Mr. John deVries
Vice President
Transamerica Real Estate Mgmt Co.
TRANSAMERICA CORPORATION

Mr. Richard Digre
Director of Finance
CITY OF OAKLAND

Mr. Greg Dresdow
Partner
Tax Department
ARTHUR ANDERSEN & CO.

Mr. Thomas Durbrow, P.E.
CONSTRUCTION SUPPORT SERVICES

Mr. Jim Fossum
Consultant on Hospital
Administration
Developmental Centers Division
DEPARTMENT OF DEVELOPMENTAL SERVICES

Mr. Michael Garland
Chief
Office of Energy Assessments
DEPARTMENT OF GENERAL SERVICES

Mr. Richard F. Keller
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Mr. Richard Knoll
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DEPARTMENT OF FOOD AND AGRICULTURE

Ms. Patricia Pavone McDonald
Project Manager
Ad Hoc Management Task Force
DEPT. OF PERSONNEL ADMINISTRATION

Mr. Edward R. Miller
Chief Land Agent
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E.F. HUTTON

Mr. Steven P. Ronzone
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Construction
Real Property Mgmt Administration
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DEPARTMENT OF GENERAL SERVICES

Mr. Arleigh Williams
Regional Manager
COLDWELL BANKERS

Mr. Robert L. Wright
Deputy Director
DEPARTMENT OF GENERAL SERVICES

Appendix E

PUBLIC HEARING WITNESSES

(In Alphabetical Order)

Hearing #1:

State Management of Real Property
Auditorium, Room 1138
107 South Broadway
Los Angeles, California

August 29, 1985

Name/Title	Representing
Mr. Michel Anderson, President	Michel Anderson and Associates
Mr. Tony Anthony, Director	Department of General Services
Mr. Ed Miller, Chief	Department of General Services Office of Space Management
Mr. Donald Owen, Chief	Department of Water Resources Division of Land and Right of Way
Mr. Paul Savona, Chief	Department of General Services Office of Space Management
Mr. Mike Smith, Chief	Office of Facilities Planning and Development
Mr. Milton Swimmer, President	Swimmer, Cole, Martinez, Curtis Interior Design
Mr. Arleigh Williams, Regional Manager	Coldwell Banker
Mr. Steve Williams, Vice President	Trammel Crow
Mr. Robert Wright, Deputy Director	Department of General Services, Office of Space Management

Hearing #2

State Management of Real Property
350 McAllister Street
San Francisco, California

October 30, 1985

Name/Title	Representative
Mr. Michel Anderson, President	Michel Anderson and Associates
Mr. Tony Anthony, Director	Department of General Services
Mr. Earl Aurelius, Vice President	Wells Fargo Bank Real Property Management Division
Mr. John DeVries, Building Manager	TransAmerica Corporation
Mr. Michael Garland, Chief	Office of Energy Assessments Department of General Services
Mr. Jay Gould, Program Support	Department of Health Services
Mr. Michel Koester, Chief	Department of Developmental Services Facilities Planning Branch
Ms. Deanna Marquart, President	Troubleshooters
Mr. John Peace, Senior Lease Manager	AT&T Lease Management, Pacific States
Mr. Ted Rauh, Chief	Department of General Services Office of Energy Assessments
Mr. Paul Savona, Chief	Department of General Services Office of Space Management
Mr. Mike Savona, Chief	Office of Facilities Planning and Development

Appendix F

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Appendix G

ACKNOWLEDGEMENTS

Troubleshooters would like to thank the Commission on California Government Organization and Economy for the opportunity to study California State government's systems for the management of its real property. Richard Mahan, the Commission's Executive Director, and members of the Commission's Subcommittee on Property Management, which was chaired by James Bouskos, were generous with their time and support; their comments and insights over the course of the study were invaluable. Mr. Mahan's high standards for analysis made the project a rigorous as well as satisfying one.

The consultants would like to express their appreciation for contributions to this study made by the following:

* Managers and Staff from the Real Estate and Buildings Division in the Department of General Services. We made frequent requests for sometimes massive quantities of information, some of which had to be generated for the first time. The individuals we dealt with from the Department of General Services responded to our requests promptly and in a spirit of investigation and cooperation. We respect their attitudes and professionalism.

* Private Sector Property Managers. Over the course of our study, we interviewed and requested information from the following private firms:

AMB Investments	Northrop Corporation
AT&T	Swimmer Cole Martinez Curtis
Arthur Anderson & Co.	Trammel Crow
Coldwell Banker	TransAmerica Corporation
Grubb & Ellis	Walsh & Chacon
Iliff-Thorn	Wells Fargo Bank

We found individuals in these organizations to exhibit a high degree of public spiritedness. We requested a great deal of information in writing, sometimes at onerous levels of detail. We especially appreciate the contributions several of these firms made to our data base on property and facilities management practices in the private sector.

* Surveyed State Departments. An 82.2 percent response rate is a joy forever in any type of survey research. We appreciate the hard work that 37 out of 45 State departments surveyed completed -- on time -- even though they were given a very short response deadline. The data they provided became critical to our analysis of property management systems in State government in California.

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March 1986

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March 1986