

# North Carolina Should Dispose of Unneeded Real Property and Improve Portfolio Management to Reduce Costs

A presentation to the  
Joint Legislative Program Evaluation Oversight Committee

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# Affected Agencies

Department of Administration's State Property  
Office (SPO)

North Carolina agencies and University of North  
Carolina constituent institutions

# Definitions

- Real property is defined as all leased or owned land, buildings, warehouses, storage or other structures, and space in buildings
- Disposition is the process of identifying and disposing of unneeded real property

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# Overview: Findings

1. Disposing of unneeded real property and optimizing utilization of state-owned property would generate an estimated \$14.3 million in one-time savings and \$2.6 million in future cost avoidance
2. North Carolina lacks a process to systematically identify surplus real property
3. The Department of Administration does not effectively control and manage the State's portfolio of real property
4. Discrepancies in the property database and insufficient access controls jeopardize the completeness, accuracy, and security of North Carolina's inventory of real property

# Overview: Recommendations

The General Assembly should modify state law and

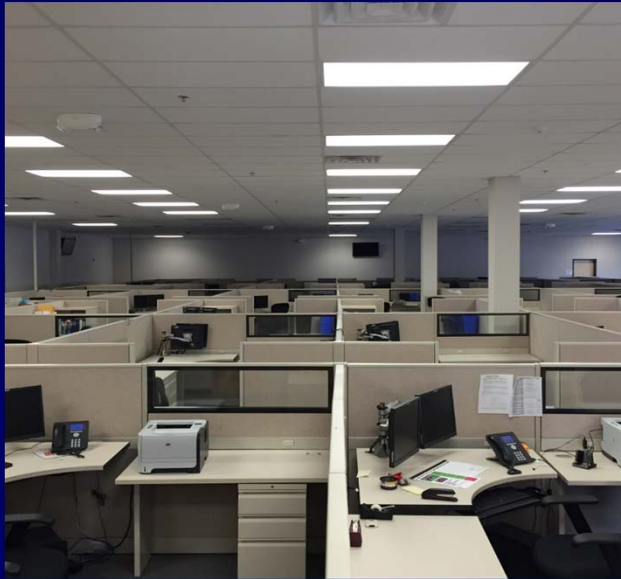
- direct DOA to comprehensively manage the State's portfolio of real property through more robust planning, performance management, and oversight reporting
- direct DOA to modify the State's inventory of real property to improve its completeness, accuracy, and security
- require all state agencies to collect, track and report data on state-owned and leased space and maintain a current facilities management plan

# Overview: Recommendations (cont'd.)

The General Assembly should modify state law and direct DOA to

- dispose of the 17 unneeded properties identified in the report
- take measures to optimize use of state-owned property by eliminating the use of unneeded leases

# Background



**Unassigned office cubicles leased by the Division of Employment Security**



**Fire damaged house allocated to Department of Public Safety (not listed as part of the state inventory)**



**Unassigned office cubicles leased by the Department of Health and Human Services**



# North Carolina has a Large and Diverse Portfolio of Real Property Assets

Asset Type	Total Assets	Total Size	Value	Counties
Land	9,146	880,415 acres	\$1.6 billion	100
Buildings	11,937	92,466,238 sq. ft.	\$26 billion	100
Structures	1,598	Not Calculated	Not Calculated	96
Leases	758	4,848,198 sq. ft.	\$ 65 million	83

**Total Estimated Value =  
over \$27.5 billion**

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# Department of Administration is Responsible for Real Property

- State Property Office (SPO) is responsible for managing and controlling the portfolio of real property
- Responsibilities include
  - maintaining an accurate and complete inventory
  - acquiring and disposing of property and leases
  - allocating space
  - performing agency oversight

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# Importance of Disposing of Real Property

- Retaining unneeded real property results in several negative consequences
  - lost value
  - negative impact on local economies, tax revenues, and employment
  - increased operating costs
  - inefficient use of limited resources and stewardship of the State's real property portfolio

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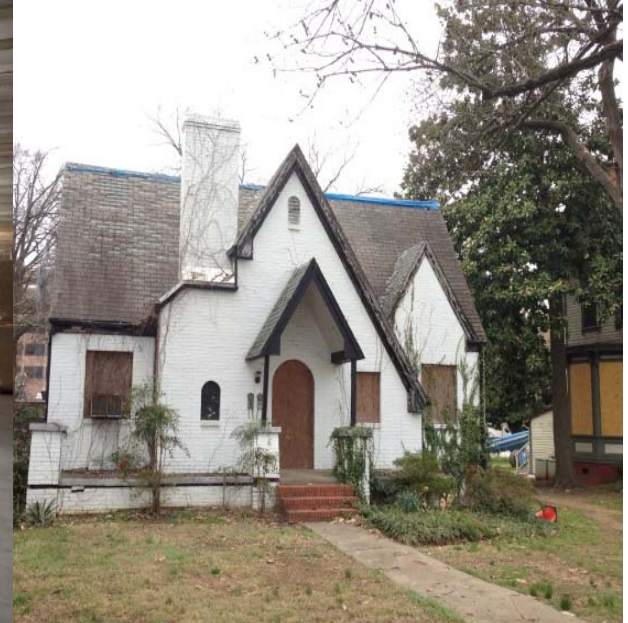
# Findings



**Unused boarded-up home allocated to the Department of Administration**



**Unused storage space allocated to the Department of Public Safety**



**Unused boarded-up home allocated to the Department of Administration (requires demolition)**

## **Finding 1**

**Disposing of unneeded real property and optimizing utilization of state-owned property could generate an estimated one-time savings of \$14.3 million as well as \$2.6 million in future cost avoidance**

# **PED Site Inspections to State Property**

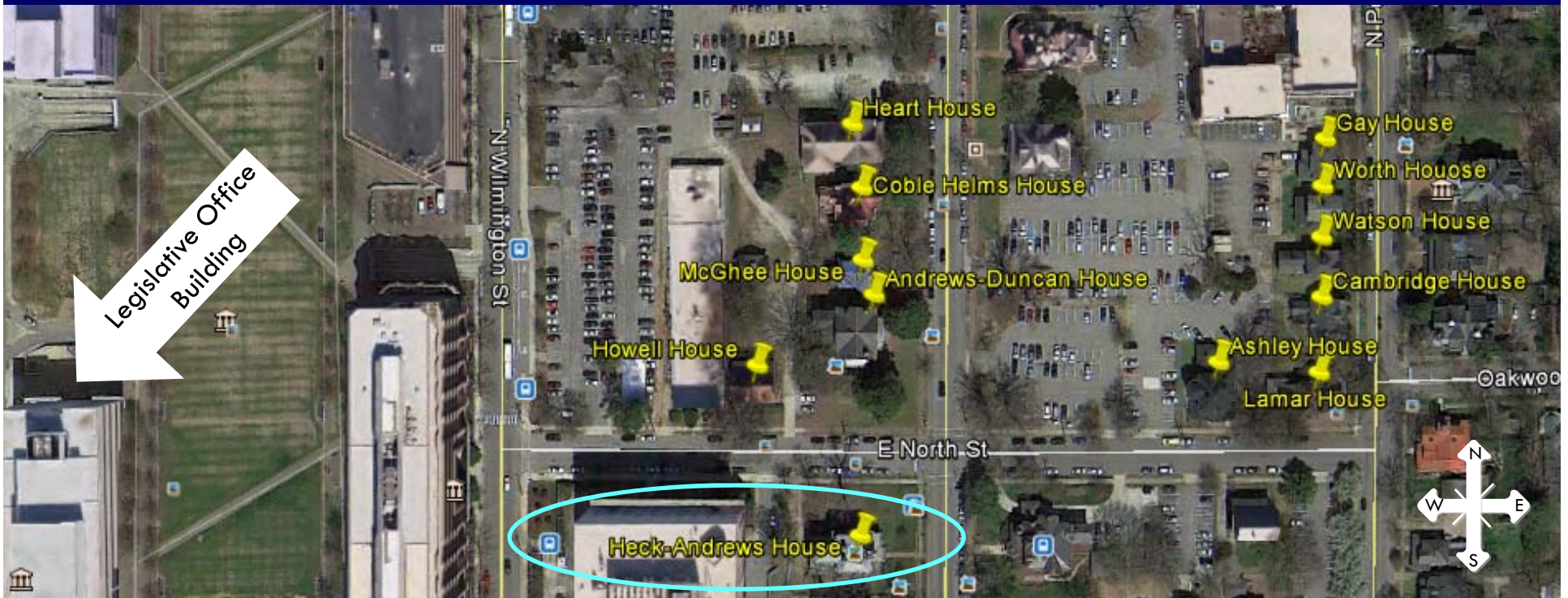
- PED selected a purposive sample of state-owned land, state-owned buildings, and office and warehouse leases for site inspections:
- PED conducted 49 site inspections of state property

**North Carolina retains interest in real property that is underutilized, vacant, or no longer serves a programmatic need**

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# DOA Has 12 Vacant Homes



- 37,378 sq. ft. of unoccupied space
- \$18.1 million in repairs needed
- Estimated \$11.1 million in revenue and \$108,858 restored to local tax base

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# Sale of DACS Properties Could Generate an Estimated \$1.8 Million if Sold



Livestock Show and Sale Facility

Iredell

Unused

46.25 acres



Piedmont Triad Farmers Market

Guilford

Unused

6.36 acres



Animal Diagnostic Lab

Duplin

Unused

5,125 sq. ft



Gas and Calibration Station

New Hanover

Unused

513 sq. ft

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# Sale of DACS Properties Could Generate an Estimated \$1.8 Million if Sold



Livestock Show and  
Sale Facility

County: Iredell

Status: Unused

Size: 46.25 acres

Est. Value: \$943,000

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# Sale of DACS Properties Could Generate an Estimated \$1.8 Million if Sold



**Piedmont Triad Farmers Market**

**County: Guilford**

**Status: Unused**

**Size: 6.36 acres**

**Est. Value: \$190,000**

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# Sale of DACS Properties Could Generate an Estimated \$1.8 Million if Sold



Animal Diagnostic  
Lab

County: Duplin

Status: Unused

Size: 8,776 sq. ft. on  
5.09 acres

Est. Value: \$687,400

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# Sale of DACS Properties Could Generate an Estimated \$1.8 Million if Sold



Gas and Calibration Station

County: New Hanover

Status: Unused

Size: 513 sq. ft. on  
.39 acres

Est. Value: \$101,100

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# Underutilized DPS Property Could Yield an Estimated \$1.4 Million if Sold



- Unstaffed space
- Operations can be consolidated into other facilities
- Estimated \$1.4 million in revenue with \$16,459 restored to Wake County tax base

# Optimizing Use of State-Owned Space Could Result in Cost Avoidance

- State law requires use of state-owned space in lieu of leasing office space
- Need for leased space could be eliminated by relocating to underutilized state-owned space
- Estimated \$2.6 million in future cost avoidance



**Unassigned cubicles,  
serving as recycling  
and water storage?**

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# Summary of Site Inspections

- PED conducted 49 site inspections and identified 17 properties for disposal and 7 leases that could be consolidated into unused state-owned space
- Could generate estimated one-time savings of \$14.3 million as well as \$2.6 million in future cost avoidance
- Regular systematic review of state property could yield additional opportunities to dispose of or consolidate assets to reduce cost

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## Finding 2

**North Carolina lacks a process to systematically identify surplus real property**



# Identifying Surplus Property

- Federal code specifies surplus property as assets that are unused or underutilized
- North Carolina has not statutorily defined the term surplus
- DOA has delegated the responsibility for identifying unneeded property to agencies
- DOA provides no guidance or process to ensure consistent reporting

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# Database Lacks Necessary Elements for Systematically Identifying Surplus Property

Data	Description	Tracked by State Property Inventory
<b>Mission Dependency</b>	The value an asset brings to the performance of the mission, goals and objectives	○
<b>Cost</b>	Acquisition, rents, and operation and maintenance	◐
<b>Condition</b>	A general measure of an asset's condition at a specific point in time	○
<b>Utilization</b>	The degree to which owned and leased space is being used	○
● = Fully Tracked		◐ = Partially Tracked
		○ = Not Tracked

## Finding 3

**The Department of Administration does not effectively control and manage the State's portfolio of real property**

# DOA is Not Engaged in Portfolio Management Practices

Management Practice	Description of Activity	Practice Implemented
<b>Setting Strategic Priorities</b>	Establishing strategic initiatives for the State's portfolio of real property through goal setting	○
<b>Performance Management</b>	Establishing and monitoring an asset performance management system	○
<b>Benchmarking</b>	Continuously comparing and measuring asset performance against comparable organizations' asset performance	○
<b>Utilization Management</b>	Tracking and monitoring the extent to which each asset is being used	○
<b>Disposition</b>	Identifying and disposing of unneeded real property	◐
<p>● = Fully Implemented   ◐ = Partially Implemented   ○ = Not Implemented</p>		

# Limited Reporting Hampers Portfolio Management

- DOA does not use its authority to require agency reporting
- Accountability and portfolio management enhanced by required reporting
- DOA reports on less than 1% of the total value of the State's portfolio of real property

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# Outsourcing Could Increase Capacity for Portfolio Management

- Georgia has outsourced new and existing lease transactions and has achieved estimated cost avoidance of \$8.4 million since 2013
- Outsourcing leasing transactions would free up an estimated 11 FTE within SPO for portfolio management

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## Finding 4

**Discrepancies in the database and insufficient access controls jeopardize the completeness, accuracy, and security of North Carolina's inventory of real property**

# Real Property Database is Inaccurate

- DOA has statutory responsibility to maintain an accurate and complete inventory of real property
- State's inventory of real property is neither complete nor accurate
  - Buildings not listed in the inventory
  - Allocation of space not recorded in the inventory
  - Vacant properties not listed as "vacant" in the inventory
- DOA has no reconciliation process to ensure the accuracy and completeness of property inventory

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# Weak Controls Jeopardize the Security of the Real Property Database

- Online database provides public reports and access for agencies to review and update data
- PED staff was able to access a secure area that granted permission to administrative functions
  - Delete agency users
  - Modify inventory data
  - Alter formats and criteria of reports
- DOA said the issue was corrected, but a second test of access security showed continued deficiency
- DOA plans to have the State's standard identity management and access service (NCID) implemented by the end of FY 2015

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# Recommendations

# Recommendation 1

**The General Assembly should direct the Department of Administration (DOA) to actively manage the State's portfolio of real property and modify state law to ensure the department is complying with this mandate**

# Amend State Law and Direct DOA to Manage the State Portfolio

- Develop strategic facilities plan and performance management system
- Establish baseline utilization data
- Define surplus real property and develop disposition system
- Amend state law to improve oversight and reporting of the State's portfolio of real property

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## Recommendation 2

**The General Assembly should direct DOA to modify the State's inventory of real property to ensure its completeness, accuracy, and security**

# Modify and Secure the Database

- The General Assembly should direct DOA to modify the database to include
  1. location for all assets (latitude-longitude)
  2. mission dependency
  3. condition
  4. estimated cost of repair and renovation
  5. annual operating and maintenance costs
  6. number of usable work spaces
  7. number of FTE assigned to the site
  8. utilization

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# Modify and Secure the Database (cont'd.)

- Develop procedures to ensure consistent statewide reporting
- Require use of North Carolina Identity Management (NCID) service

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## **Recommendation 3**

**The General Assembly should require all state agencies to collect, track, and report data on state-owned and leased space they occupy and maintain a current facilities management plan**



# Collect, Track, and Report on Leased and State-Owned Real Property

- To assist DOA in statewide portfolio management, agencies and institutions should be required to
  - collect, track, and report data that provides information on the performance of each asset
  - perform an annual reconciliation to identify discrepancies and report them to DOA
  - develop a five-year property management plan and submit it to DOA for review

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## **Recommendation 4**

**The General Assembly should direct the Department of Administration to dispose of the unused, unneeded, and underutilized property identified in this report**

# Dispose of Unused, Unneeded, and Underutilized Property

- Disposal of 17 properties could generate an estimated \$14.3 million in one-time state revenue
- Costs associated with sale of these properties can be charged against the state land fund
- Agencies should retain up to 25% of the net proceeds unless otherwise specified in statute

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## **Recommendation 5**

**The General Assembly should direct DOA to review requests to acquire new or renew existing leased space to determine whether suitable state-owned space exists to meet lease requirements**

# Optimize Use of State-Owned Property

The General Assembly should direct DOA to

- allocate underutilized state-owned space to meet needs of expiring leases
- require agencies to search existing holdings for excess space prior to seeking or renewing leases
- require DOA to analyze lease proposals against utilization data and enforce state law

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# Summary: Findings

1. Disposing of assets and optimizing state-owned space would result in one-time savings and recurring future cost avoidance
2. The State lacks a process to systematically identify surplus real property
3. The Department of Administration does not effectively control and manage the State's portfolio of real property
4. Discrepancies in the database and insufficient access controls jeopardize the completeness, accuracy, and security of North Carolina's inventory of real property



# Summary: Recommendations

The General Assembly should modify state law and direct DOA to

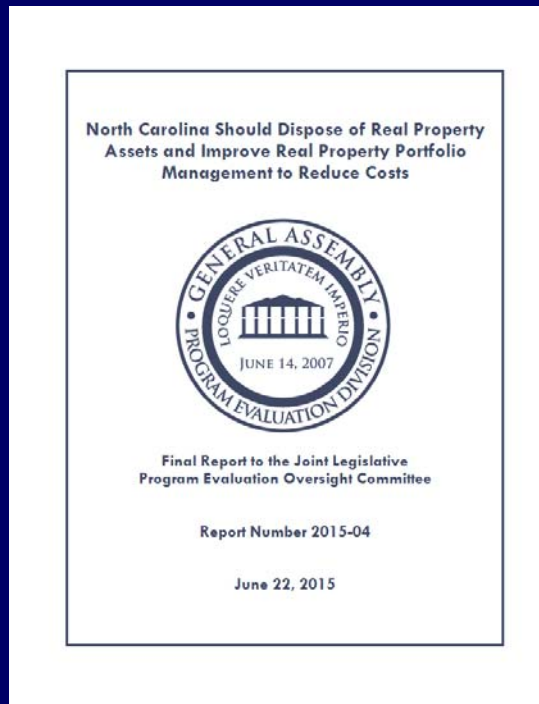
- comprehensively manage the State's real property portfolio
- modify the State's inventory of real property to improve its completeness, accuracy, and security
- dispose of the 17 unneeded properties identified in this report
- take measures to optimize the use of state-owned property by eliminating unneeded leases

The General Assembly should also modify state law to require more robust data tracking and planning by agencies

# Legislative Options

- Accept the report
- Refer it to any appropriate committees
- Instruct staff to draft legislation based on any of the report's recommendations

**Report available online at  
[www.ncleg.net/PED/Reports/reports.html](http://www.ncleg.net/PED/Reports/reports.html)**



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