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P-306

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning California's excess land. The report indicates that California has excess land having an estimated value of approximately $164 million. The State could earn increased revenue and benefits by disposing of excess land and by better managing land held for future use.

Respectfully submitted,

THOMAS W. HAYES
Auditor General

REPORT BY THE

OFFICE OF THE AUDITOR GENERAL

TO THE

JOINT LEGISLATIVE AUDIT COMMITTEE

P-306

CALIFORNIA COULD EARN MILLIONS OF DOLLARS FROM BETTER MANAGEMENT OF ITS EXCESS LAND

DECEMBER 1983

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SUMMARY

The State of California could earn millions of dollars in revenues from better management of land that is not currently used for state programs. Much of this land is excess land that state agencies will not need for state programs in the foreseeable future. Moreover, much land that agencies are retaining for future use is unused or underused. The State could earn increased revenue and benefits by disposing of excess land and by better management of land held for future use.

Agencies Are Retaining Excess Land

We examined 17,087 acres of land managed by four state agencies at 15 sites. We identified nearly 10 percent of the land as excess land, land that agencies are not using and do not plan to use in the future. These 1,675 acres of excess land have an estimated value of approximately $164 million. One such example of excess land is a 65-acre parcel controlled by the Veterans Home of California. The Veterans Home uses the land for disposal of the Veterans Home's wastewater effluent. In 1982, the Department of General Services (department), which is responsible for acquiring, managing, and disposing of land for state agencies, determined that, as long as wastewater disposal is ensured, the 65 acres are not essential to the operation of the Veterans Home and could be disposed of. The estimated value of this property is $780,000.

The California Government Code requires state agencies to report excess land to the department annually. The department reports this land to the Legislature and the Legislature authorizes the disposal of the excess land as surplus property. However, none of the 1,675 excess acres we identified were reported as surplus property in the 1982 reporting cycle.

State agencies do not report excess land because state agencies do not place a high priority on such reporting. Most state agencies do not benefit from the proceeds of the sale. Moreover, agencies may not report excess land because the State's definition of excess land is imprecise. Further, although the department can propose to the Legislature potential surplus land identified through its own independent investigations, the department does not systematically identify such land; the department identifies lands as potential surplus only as they are discovered through other departmental activities.

Use of Land Retained for
Future Programs Is Ineffective

State agencies are not earning the highest economic return from state land being retained for future programs. The California Government Code allows state agencies to lease land that is not currently needed for state programs. The four agencies in our sample are retaining over 5,000 acres of land for future use; less than half of this land is currently leased. For example, California State University, Dominguez Hills, controls approximately 56 acres of underdeveloped land that is adjacent to commercial areas. The university plans to construct student housing and parking lots on the land. However, the construction is not scheduled before 1990, and enrollment at the campus is expected to decline by that date. The university could derive revenue or benefits for the State by negotiating a lease for the land.

Better use of underused land could provide additional revenues and benefits to the State. However, the State does not have a policy or procedures to promote the highest economic return from interim uses of such lands. As a result, the State is foregoing revenue and other benefits from underused lands.

Agencies Are Failing to Collect Lease Expenses

State agencies that lease land to outside entities are not always collecting expenses for which the agencies should be reimbursed. In three out of the ten leases in our sample that included or should include maintenance and utility fees, agencies did not collect a total of $13,656 in reimbursable expenses for fiscal year 1982-83. Such uncollected expenses represent state subsidies to lessees. For example, Sonoma State Hospital has been leasing a portion of one building to the United States Postal Service indefinitely for $18.42 per month. The lease does not contain a provision for the State to collect the utility costs associated with the lease. The hospital has not updated the lease since it was established in 1968. As a result, the State subsidized the United States Postal Service for utility costs of about $648 in fiscal year 1982-83.

Agencies do not collect all reimbursable expenses because the State has not established adequate procedures to update all leases to include provisions for collecting all utility, maintenance, and other reimbursable expenses. The department's informal procedures to update leases do not detect all deficiencies in leases of state land.

INTRODUCTION

California 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. State agencies within the Resources Agency control nearly 92 percent of this land: the Department of Parks and Recreation alone controls over 1.1 million acres; the Department of Fish and Game, the Department of Forestry, the Department of Water Resources, and other resources agencies together control an additional 362,000 acres. The remaining state land is controlled by the University of California (3.3 percent), the Department of Transportation (1.7 percent), the California State University (1.0 percent), the Department of Corrections (0.6 percent), the Department of Developmental Services (0.4 percent), the Department of Veterans Affairs (0.1 percent), and 19 other state agencies (1.0 percent). Table 1 on the following page shows the acreage controlled by state agencies for operation of state programs.

TABLE 1

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	0.0**
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.

The Department of General Services (department) 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 land to be purchased, and negotiates the purchase. The department is responsible for managing the purchased land until it is placed in its intended use or until management transfers to the state agency for which the land was acquired.

The department also manages and disposes of land that the Legislature has designated "surplus land," land that the State does not need. The California Government Code provides for the disposal of excess land by making it available for transfer to other state agencies, for sale to other governmental entities, or for sale to the general public. According to Section 11011 et seq. of the code, each state 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. To assist state agencies in identifying and reporting excess land, the department annually sends a memorandum to landholding agencies requesting them to review their landholdings and to report any excess land under their control. Based on agency reports of excess land and the department's own investigations, the department submits an annual report to the Legislature identifying land that should be designated and sold as surplus.

Between 1978 and 1982, the State sold 8,275 acres, generating revenue for the State of over $20 million. As of December 1982, the State had 6,946 acres of surplus land that had not been sold. In some cases, the department is holding some of this land in reserve for other state or local governmental agencies to expand their programs. In some other cases, a lack of parties interested in the land has prevented the department from disposing of surplus land. The unsold surplus land represents an estimated $40.7 million in potential sales revenue.

State law allows state agencies to negotiate leases for land that they temporarily do not need for state programs, subject to the department's approval. Monies from most lease contracts must be collected by the department and deposited into the General Fund. The agency that negotiates the lease may collect the lease payments; however, if the agency incurs reimbursable expenses such as certain utility and maintenance costs associated with the lease, the agency may deduct these costs and remit the balance of the lease payment to the department.

The department has designated its Real Estate Services Division (division) to carry out real estate acquisition, management, and disposal for the State. The division is organized into sections responsible for the primary services that the division provides. The division's Real Estate Sales Section prepares economic analyses of real properties to assess the relative merits of selling or retaining them, conducts ongoing investigations to identify land that may become surplus in the future, and sells surplus land. The division's Property Management Section, in

addition to other duties, reviews and approves leases that state agencies negotiate. The division's operating budget in fiscal year 1982-83 was $3,150,000; for fiscal year 1983-84, the operating budget is $3,181,771. The division includes land agents experienced in real estate appraisal, management, and sales.

SCOPE AND METHODOLOGY

We conducted this review to identify excess state land (land not needed for state programs) and to determine if the State effectively manages land it is retaining for future use. We focused our review on the methods that the Department of General Services uses to identify excess land. We also examined state agencies' management of lands not currently needed for state programs but retained for future use.

To determine how the department identifies excess state land, we interviewed department officials responsible for identifying excess land and reviewed the department's policies and procedures for such activities. We also reviewed available property maps, leases, deeds, property appraisal reports, and the department's annual reports to the Legislature on surplus land.

To evaluate the department's methods for identifying excess land, we selected a sample of four state agencies that control land acquired for operation of state programs: the California State University, the Department of Corrections, the Department of

Developmental Services, and the Department of Veterans Affairs. These four agencies control 34,060 acres (2 percent) of state land. The number of acres controlled by these agencies ranges from approximately 2,000 to more than 15,000 acres. We excluded from our sample the University of California and the Department of Transportation, agencies which hold large amounts of state land, because of previous Auditor General reports on property management by these two agencies.* We also excluded from our sample the State Lands Commission, which manages some 4.6 million acres of land, including tidelands, submerged lands, and lands granted to the State by the federal government. Finally, we excluded public resources departments, such as the Department of Parks and Recreation, because the land management objectives of these agencies involve retaining state lands to ensure that their natural, cultural, historical, or recreational attributes are preserved.

The four agencies in our sample administer land at a number of sites: the California State University administers land at 19 campuses, the Department of Corrections administers land at 12 correctional

*In order of issue, these reports are entitled "University of California Property Management," Report P-089, January 10, 1983; and "A Review of the Department of Transportation's Administration of Excess Land," Report P-102, January 14, 1983.

facilities, and the Department of Developmental Services administers land at 11 hospitals.* The Department of Veterans Affairs administers the Veterans Home of California.

We visited 15 sites administered by the four state agencies. We selected sites based on our estimate of the amount of vacant land at the sites and the number of leases of land to nonstate entities. The 15 sites comprise 17,087 acres (over 50 percent) of the 34,060 acres controlled by these four agencies. We toured each site to observe the present uses of the land and reviewed capital improvement plans to determine planned uses of the land. We interviewed officials at each of the 15 sites to determine their policies for identifying excess land.

We classified the land at these 15 sites into four categories: land currently used for state programs, land leased out but retained for future use, land underused but retained for future use, and land not needed for state programs (excess land). We classified 2,311 acres of watershed at these sites as underused land held for future use. We based our figures on the number of acres in each category on the best estimates available. According to a department manager, accurate acreage amounts are not available until land is surveyed. We compared our list of excess land at the sites with the reports on excess land that the four agencies submitted to the department in 1982, the most recent reporting cycle

*Although the Department of Developmental Services administers the hospital lands, the Department of Mental Health administers the hospital programs at three of the hospitals.

available for our review. Finally, we determined the estimated value of the excess land by contacting farm advisers, real estate appraisers, city and county planners, bank property managers, and county assessors. We did not, however, employ real estate appraisers to provide complete appraisals of the excess land.

To evaluate the department's effectiveness in managing leases of land controlled by the four agencies, we interviewed department officials regarding the policies and procedures for leasing state land. At the department's Real Estate Services Division and at the four agencies we sampled, we reviewed the terms and conditions of the available leases and compared that information with lease information at the 15 sites. At each of the 15 sites, we interviewed officials regarding policies for negotiating leases.

AUDIT RESULTS

I

THE STATE OWNS LAND NOT NEEDED FOR CURRENT OR FUTURE PROGRAMS

The State owns land no longer needed for its programs. Nearly 10 percent of the state land in our sample of 15 sites is excess land. However, state agencies do not always report all of their excess land to the Department of General Services; none of the 1,675 excess acres we identified were reported to the department in the 1982 reporting cycle. Agencies' low priority for reporting excess land, the State's vague definition of "excess land," and the department's ineffective method for identifying excess land are factors responsible for incomplete reporting of the State's excess land. When excess land is not made available for disposal, the State foregoes potential revenue from the sale of the land, the counties cannot collect property taxes, and other public agencies or private parties cannot use the land. The excess land in our sample alone is worth approximately $164 million.

State Agencies Do Not Report All Excess Land

All of the state agencies in our sample have land that they do not plan to use. In our review of 15 sites administered by four state agencies, we found 1,675 acres of land that the agencies are not using nor planning to use for state programs. Table 2 on the following page shows our classification of land use at the 15 sites administered by the four agencies in our sample at the time of our review.

TABLE 2

LAND USE AT 15 SITES
MANAGED BY FOUR STATE AGENCIES
(acres)

Agency	Currently Used for Programs	Leased, Retained for Future Use	Underused, Retained for Future Use	Not Needed for Programs (Excess)	Total Acres in Sample
California State University	6,035	15	321	139	6,510
Department of Corrections	2,344	826	133	2	3,305
Department of Developmental Services	1,634	1,459	897	1,054	5,044
Department of Veterans Affairs	232	0	1,516	480	2,228
Total	10,245	2,300	2,867*	1,675	17,087
Percent of Total Acres in Sample	60.0%	13.4%	16.8%	9.8%	100.0%

*Includes 2,311 acres of watershed. 1,209 acres of watershed managed by the Department of Veterans Affairs were burned in a recent fire. They are not currently usable as watershed but are held for future use as watershed.

Land used for state programs includes land occupied by buildings and parking lots, landscaped lands, and other areas such as recreation camps, arboretums, and agricultural lands. Land leased out but retained for future use is land leased to private parties or to other entities through legislation. The State derives a benefit from these lands. Underused land retained for future use consists of vacant land or watersheds not presently used for state programs. Excess land is land an agency does not currently need for state programs, and for which the agency has no future plans. As Table 2 shows, the 1,675 acres of excess land at the 15 sites in our sample constitute nearly 10 percent of the total land at the sites.

Examples of Excess Land

The 1,675 acres we identified as excess land represent various types of terrain with different potential land uses and values. Some of the land is flat, some is mountainous or forested. Included in the acreage we identified as excess are approximately four acres on the campus of California State University, Dominguez Hills. This acreage, which is not designated for development in the California State University's capital improvement program, has been vacant and unused since its acquisition in 1967. There are no deed restrictions to preclude the sale of this property. Furthermore, the parcel is contiguous to vacant land zoned for commercial development; its estimated value is $812,000, based on comparison with a recent sale of nearby land.

A 65-acre parcel at the Veterans Home of California was leased out for 25 years for agricultural purposes, while simultaneously used as an area on which to sprinkle the Veterans Home's wastewater effluent. Since January 1982, the land has been used solely for wastewater disposal. The land is zoned for agricultural use but could also be used for commercial or recreational purposes. In an economic study prepared in April 1982, the Department of General Services determined that this parcel is not essential to the Veterans Home's program. Department officials reported that in the best interests of the State, the land should be declared surplus and sold, subject to restrictions ensuring that the land be used for disposal of the Veterans Home's wastewater and that the property be used for purposes consistent with the surrounding properties. The Department of Veterans Affairs, which had previously resisted disposing of the land, because of its need to use the land for wastewater disposal, is planning to determine the amount of land necessary for wastewater disposal as soon as funds become available. Based on information in the study by the Department of General Services, we estimated the value of this property at $780,000.

At Napa State Hospital, 30 acres along the highway just south of the main entrance to the hospital were leased out for agriculture from 1978 to 1980. Presently, the land is vacant and unused. In March 1979, the Department of General Services recommended that this land be placed on the list of potential surplus property. In November 1979, the Department of Developmental Services submitted information to the Department of General Services indicating the need to retain this parcel

as a buffer zone to protect the hospital's patients from outside intrusion. However, during our visit, the hospital administrator indicated that he would not object to the sale of this property as long as future uses were restricted to those consistent with the hospital's need for a buffer zone. Based on information we received from a county appraiser, we estimated the value of this 30-acre parcel at approximately $135,000.

The State's System for Identifying Excess Land Is Ineffective

Although we found 1,675 acres of excess land at the 15 sites in our sample, none of the four agencies that control these sites reported any of this as excess land in 1982. One of the agencies had declared some of this land as excess in previous years. The Department of Developmental Services, formerly the Department of Mental Hygiene, reported 170 acres as excess in 1969 and an additional 120 acres as excess in 1980. The Department of Finance, however, asked that these 290 acres be held for possible construction of a state prison. In April 1983, for a Governor's Task Force, the Department of Developmental Services identified 643 acres as excess land; this figure included the 290 acres it had previously declared excess.* Nonetheless, in its 1982 reports to the Department of General Services, none of the four

*Our figure of 1,054 acres of excess land held by the Department of Developmental Services includes these 643 acres. Pursuant to Section 151.20, Chapter 323, Statutes of 1983, the Legislature subsequently declared 141 of these acres as surplus. In addition, the Department of Finance removed the hold on the 290 acres it had requested held for prison construction.

agencies under review reported any of the excess land that we identified in our sample. Such information from agencies supplies most of the basis for the department's annual report to the Legislature on surplus lands.

Department officials indicated that state agencies do not report excess land to the department because the agencies do not place a high priority on reporting excess land. According to those officials, there is a lack of incentive for agencies to declare land excess because, for most agencies in our review, revenue from the sale of land does not directly benefit the agency that designates the land as excess. Another factor that may inhibit agencies from identifying and reporting excess land is the State's vague definition of "excess land". Section 11011 of the California Government Code, and Section 1381 of the State Administrative Manual, require each agency to review its land to determine if any land is "in excess of its foreseeable needs;" however, neither the code nor the manual defines "foreseeable needs." Although some agencies have no current plans for future use of some of their unused land, agencies are reluctant to declare that they will never need that land. Consequently, agencies do not report unused land to the department as excess. The 1,675 acres that we identified as excess are not included in the four agencies' master plans for facility development; yet, this land was not reported to the department as excess. Allowing "foreseeable needs" to remain undefined does not provide sufficient guidance to agency administrators who are responsible for identifying and reporting excess land to the department.

A third factor that hinders the identification of excess land is the department's lack of systematic identification of potential surplus land. In addition to requesting state agencies to report excess land, the department may identify "potential surplus land" through independent investigations. When the department designates land as potential surplus land, the agency that controls the land has two years to submit to the department a justification for retaining the land. In the absence of such justification, the department includes the potential surplus land in its annual report to the Legislature. The Legislature may then declare the land surplus and authorize it for disposal. The department first included a listing of potential surplus land in its 1980 annual report.

Currently, the department does not have a person designated to systematically identify potential surplus land. The responsibility for identifying potential surplus land is spread among the department's land agents who also have other responsibilities. Land is included on the list of potential surplus land only when land agents receive information indicating that a potential surplus exists. For example, the department may discover potential surplus properties when agencies propose that the division approve long-term leases of agency land. If an agency proposes to lease out a portion of its land for 25 years, the land may be in excess of the agency's "foreseeable needs"; the department can propose that land as potential surplus. Lack of systematic identification of potential surplus land, however, may result in an incomplete identification of these lands.

The State Is Foregoing Potential Sales Revenue

As a result of state agencies' not reporting all excess land, and the department's lack of systematic identification of potential surplus land, the State is foregoing revenue that it could earn by selling surplus land. Although some excess land we identified might be transferred to other state agencies, or might be sold at a reduced price to local governments for certain public uses, much of the excess land in our sample could be sold to private parties. We estimated the value of the excess land in our sample at approximately $164 million.

Table 3 shows the number of acres we classified as excess at sites managed by the four state agencies we sampled and the estimated value of the excess land at the time of our review. We estimated the value of the excess land by examining recent studies by the department, by contacting county assessors familiar with particular areas, or by contacting city planners, or bank property managers.

TABLE 3

ESTIMATED VALUE OF EXCESS LAND AT 15 SITES
MANAGED BY FOUR STATE AGENCIES

Agency	Excess Land (acres)	Estimated Value of Excess Land
California State University	139	$ 2,554,791
Department of Corrections	2	1,000
Department of Developmental Services	1,054	159,875,827*
Department of Veterans Affairs	480	1,227,841
Total	1,675	$163,659,459

*We identified excess land valued at $154,117,800 at Agnews State Hospital. This excess land constitutes 96.4 percent of the value of excess land we identified at the state hospitals included in this review. The Department of Developmental Services manages landholdings at the state hospitals.

In addition to representing foregone sales revenue for the State, excess state land represents foregone property tax revenues for counties and foregone opportunities for other public use or private development of the land. State land is exempt from local property tax. If the State's excess land were returned to private ownership, however, counties could tax the land at the rate of approximately 1 percent of the purchase price (the rate of property taxation in California after passage of Proposition 13 in 1978). Further, disposal of excess state land could make the land available for public or private use.

II

THE STATE IS NOT REALIZING THE HIGHEST ECONOMIC RETURN FROM LANDS RETAINED FOR FUTURE USE

State agencies in our sample control over 5,000 acres of land that is retained for future use but is not currently used for state programs; over one-half of this land is not used to produce the highest economic return for the State. Although the California Government Code allows state agencies to lease land, the State does not encourage state agencies to place certain state lands into an interim use that will produce the highest economic return to the State. As a result, the State is foregoing potential revenue or benefits from underused lands. In addition, the state agencies are not collecting all reimbursable expenses on lands that are leased. The Department of General Services (department) has not established adequate procedures to ensure that agencies collect all reimbursable expenses in leases.

Land Management by State Agencies Does Not Always Promote the Greatest Economic Return on the Land

Section 14670 et seq. of the California Government Code allows state agencies to lease their land, subject to approval by the department. According to the code, the director of the department may lease any land belonging to the State, with the consent of the agency concerned, unless such leasing is expressly prohibited by law. Revenues

that the department receives from leasing land are deposited in the General Fund. In addition, Section 89046 of the Education Code provides that the trustees of the California State University, with approval from the director of the Department of Finance, may lease any property for purposes that are consistent with the functions of the university. Revenues that the California State University receives from leasing its land are returned to the California State University system.

Real estate texts consider the "highest and best use" of land as that which generates the greatest economic return. Potential uses must be reasonable, physically possible, and legally permissible considering local zoning, easements, and other land use restrictions. According to a department manager, effective land management includes interim uses of land that can provide revenue or other benefits to the State.

In our review, we found several instances in which state agencies were successfully using state lands to generate revenue or other benefits for the State. For example, Atascadero State Hospital leases about six acres of state land and the attached buildings to a local dairy for the manufacture of gourmet cheese. This lease provides over $6,000 a year in revenues to the State. In another example, the California State University is leasing land at the Fullerton campus to the Fullerton Redevelopment Agency on a 55-year lease for private development of a hotel and conference center. The annual revenue of at least $208,000

from this lease, with additional funding from the redevelopment agency, will fund most of the construction costs for a new sports complex at the university.

Although we did not include the University of California in our review, the San Diego campus provides another example of a state agency using its land to generate a profitable economic return. The university is leasing 24 acres of land to a private developer; the lease includes a three-year option for the developer to enter into a long-term lease. The university will receive at least a 12 percent return on the market value of the land, as well as the benefits derived from having additional housing and commercial developments close to the campus.

However, state agencies do not always use their land to promote the greatest economic return to the State. Better use of underused land could provide additional revenues and benefits. The four agencies in our sample are retaining 5,167 acres of land for future use. We determined that 2,867 acres of this land are underused. Table 2 on page 10 shows the amount of underused land managed by each of the four agencies. For example, California State University, Sacramento, is not fully using about 23.7 acres of land located at the south end of the campus. According to capital outlay plans for this campus, this land is reserved for future construction of student housing and parking. Construction of a parking lot on approximately four acres has recently been scheduled for fiscal year 1984-85; however, construction of housing on the remaining 19.5 acres is not included in the five-year capital outlay plan that

identifies construction projects scheduled through fiscal year 1988-89. Further, most of this land has remained vacant and unimproved since its acquisition 16 years ago. Although the university has considered other uses for portions of the land, the land is now used only for such purposes as temporary overflow student parking at the beginning of each semester.

The university could lease a portion of this land to a developer for an interim use to generate revenue for the State. The parcel is zoned for multi-residential and commercial development. According to a city planner, city zoning control applies if the State leases the land for development. As multi-residential land, it would be valued at approximately $1.7 million. Local real estate appraisers told us that an annual return of 10 percent on the land value is reasonable for land zoned for multi-residential development. Based on this rate of return, the State could derive revenues of up to $170,000 a year for the 19.5 acres. To realize this rate of return, the State would have to commit to a long-term lease of approximately 50 years. The university may wish to utilize such a lease arrangement to obtain the student housing facilities planned for this land. Currently, the State derives no revenue from the land.

Another university that is retaining land for future construction but not deriving any interim revenue or other benefits from the land is California State University, Dominguez Hills. This university manages approximately 56 acres of unused land on the west side

of the campus. The gently sloped, undeveloped land is adjacent to commercial areas. According to its capital outlay program, the university plans to construct student housing on a portion of the land and student parking lots on the remainder. The parking lots are to prepare for a projected enrollment of 20,000 students. However, the university has not scheduled this construction. Moreover, while the university's estimated 1983-84 enrollment is 5,400, the California State University currently projects that enrollment at this campus will decrease to approximately 5,300 by fiscal year 1989-90. Since construction is not planned prior to 1990, and enrollment is expected to decline, the university could derive revenues or benefits by negotiating an interim lease for this unused land. The lease could be consistent with the university's recently developed guidelines for campus use. In the past, private interests have approached the university about leasing its land.

Although some state hospitals in our sample derive some benefits from their land, hospitals do not fully utilize all of their land for the highest economic returns. For example, Sonoma State Hospital presently retains about 850 acres of mountainous, forested land as watershed to provide its water supply. According to a state forester, some timber harvesting and clearing of brush would, at the least, increase the supply of water to the hospital. However, the hospital has never conducted an economic analysis to determine if selective timber harvesting would be feasible and economical in the forested land.

In addition, the hospital has not conducted an economic analysis to determine if additional natural water runoff could be diverted to supplement hospital water needs. The supervisor of the hospital's water and sewage treatment plant told us that the hospital retains and uses only about 30 percent of the water from the property because the hospital's storage capacity is limited. In addition, he stated that the hospital could irrigate hospital grazing lands if more water were retained. An environmental specialist from the regional water quality control board believes that it is feasible for the hospital to expand its storage capacity in order to retain more water for the hospital's needs. If an analysis determines that additional natural water runoff can be retained, the hospital could place the land in higher economic use.

The State Does Not Encourage Agencies to Produce the Highest Economic Return From Unused Land

State agencies do not produce the highest economic return from land retained for future use because state policy does not actively encourage agencies to promote productive interim uses of land. Moreover, the department does not have procedures to determine whether the agencies are using their lands effectively. The lack of policy and procedures results in inconsistent land use policies by state agencies: some state agencies derive revenue and other benefits from land not currently needed for state programs while other agencies are not using or are underusing such land.

The department's Property Management Section tries to obtain the highest economic return from its management of newly acquired and surplus state lands. Revenue derived from leasing the land covers the unit's land management costs and also provides a source of revenue to the State. According to one department manager, a system to encourage agencies to use their land to produce the highest economic returns to the State would be the best way for the State to manage underused property. Another department manager stated that if the Legislature authorized the department to evaluate land use by other agencies, the department could conduct periodic reviews of other state agencies to determine if agencies are using effectively all the lands they manage. In addition, the department could recommend interim land uses and provide state agencies with expertise in land management, activities that the department does not now carry out. To enable the department to carry out these activities, the Legislature would need to expand the department's responsibilities.

The State Is Not Collecting Leasing Expenses

The State is not collecting all reimbursable expenses associated with leasing land to other entities. By not establishing adequate procedures and updating leases to ensure that all reimbursable expenses are provided for in the lease, three state agencies in our sample subsidized nonstate entities by approximately $13,656 in fiscal year 1982-83.

According to Section 1393 of the State Administrative Manual, state agencies may collect maintenance and utility expenses in lease payments if the amounts are identified separately in the lease. In addition, department procedures allow state agencies to deduct administrative expenses from payments the agencies collect. However, we found that three state hospitals did not collect expenses totaling approximately $13,656 in three of the ten leases in our sample that contained or should contain provisions for collecting maintenance, utility, and administrative expenses. As a result of not collecting all expenses, the hospitals subsidized entities that lease land from the State.

In a lease established in 1968, Camarillo State Hospital leases about 19 acres of land and attached buildings to a nonprofit corporation. Although the hospital charges no rent for land and buildings, the corporation pays $1,483 a month to cover the estimated cost of utilities. In fiscal year 1982-83, however, the total cost of utilities exceeded the total amount paid by the corporation by $10,007. Because the hospital had not updated the lease to provide for collecting all utility costs, the hospital subsidized the nonprofit corporation in fiscal year 1982-83 by paying these additional utility costs. The hospital updated the lease on July 1, 1983, including provisions that require the nonprofit organization to pay all utility costs as billed by the hospital each month.

In another example, Sonoma State Hospital leases a portion of one building to the United States Postal Service for $18.42 per month. The lease, established in 1968, is for an indefinite period. The lease does not contain a provision for collecting reimbursable utility costs, and the hospital has never updated the lease to include such a provision. A hospital administrator agreed that the estimated utility costs paid by the State for fiscal year 1982-83 were about $648.

Three hospitals in our sample did not collect all reimbursable expenses because the hospitals did not update their leases to include adequate charges for maintenance and utilities. In addition, the department's informal procedures for reviewing contracts with utility charges are not adequate; the department reviews only new leases or those leases that agencies renew. The department does not review the utility charges on leases currently in effect.

In June 1983, to ensure that state agencies include provisions for collecting the cost of leasing state lands, a department land agent implemented informal procedures to screen proposed or renewed leases. The agent developed minimum standard utility charges, based on average utility charges in a sample of similar leases. The agent uses the standards to ensure that new or renewed leases include a provision for charging at least the minimum cost. However, the informal procedures are not adequate; the land agent does not detect all deficiencies in leases. For example, in the Camarillo State Hospital lease, the land agent considered the utility charges adequate because the lease charges

exceeded the minimum standard; yet, the actual utility costs were greater than those established in the lease. Moreover, the land agent did not review the Sonoma State Hospital lease because the lease was not renewed; it was established in 1968 for an indefinite period.

III

CONCLUSION AND RECOMMENDATIONS

We examined 17,087 acres of land controlled by four state agencies and found 1,675 acres that the agencies are not using and do not plan to use in the future. Although state law requires agencies to report excess land, none of the four agencies that control this land reported any of it as excess to the Department of General Services in 1982. State agencies do not report all excess land to the department because revenue from the sale of land does not always benefit the agency disposing of the land and because the State's definition of excess land is imprecise. Also, the department is not systematically identifying potential surplus land.

The State is foregoing potential revenue by retaining excess land; the value of the excess land in our sample is approximately $164 million. In addition, counties are losing potential tax revenue they would accrue if the State sold its excess land to private parties. Also, the potential for better land use through transfer of the lands to another state agency or sale of the lands is not realized.

The four state agencies in our sample also manage 5,167 acres that they are retaining for future use. Land that the State is retaining for future use can be put to an interim use that promotes the highest economic return to the State; state agencies are allowed to lease land

that is not currently used for state programs. Although state agencies in our sample have leased 2,300 acres, 2,867 acres that are being retained for future use are currently underused. This underutilization of land occurs because the State does not have a policy or procedures to promote the highest economic return from such land. Consequently, the State is losing revenues and other benefits from these lands.

Finally, three of the ten leases we reviewed that provide or should provide for state agencies to collect expenses for maintenance and utilities do not include provisions for collecting adequate expenses from the lessees. Moreover, the State lacks adequate procedures for updating all contracts to collect reimbursable expenses associated with leasing land. Consequently, the State is paying expenses that should be paid by the lessees.

Recommendations

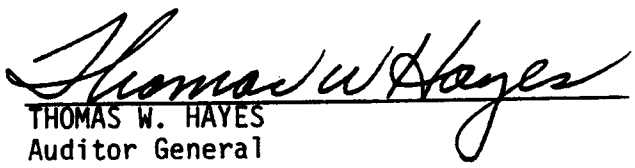
To improve the identification of excess state land, the Department of General Services should require state agencies to include current and future uses of all their landholdings on the annual reports they prepare for the Division of Real Estate Services. The department should review systematically these reports submitted by state agencies. In addition, the department should plan and conduct periodic site inspections to identify potential surplus land. Further, to facilitate state agencies' identification of excess land, the department should draft a more precise definition of the phrase "in excess of its foreseeable needs."

In addition, to improve the utilization of land retained for future programs, the Legislature should adopt legislation promoting interim uses of underused land that provide for the highest economic return to the State. This policy should also authorize the department to evaluate how state agencies use unneeded land, and to propose interim uses of underused land that would generate the highest possible economic returns.

Finally, the department should review systematically all current leases and ensure that leases have been updated to include provisions for collecting adequate reimbursable expenses from lessees.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



THOMAS W. HAYES
Auditor General

Date: December 12, 1983

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State and Consumer Services Agency
OFFICE OF THE SECRETARY
915 Capitol Mall, Suite 200
Sacramento, CA 95814

December 6, 1983

Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Re: Report by the Office of the Auditor General
(Better Management of Excess Land, P. 306)

Dear Mr. Hayes:

The report indicates that certain deficiencies exist in the State's land management procedures which are costing the State millions of dollars and makes recommendations for correcting the problems.

Basically, this Agency concurs with the findings and recommendations as set forth in the report. Although we have not had a chance to review all of the properties identified as surplus, we are beginning an evaluation of the properties and will include our findings in the Department of General Services' next annual surplus property report. In analyzing the report's recommendations, we feel it is important to address the following points:

1. Although the report indicates 1,719+ acres were identified as excess lands having an estimated value of approximately $166 million, the report appropriately points out that these excess lands could be transferred to other State agencies or sold at a reduced price to local governmental entities for public use purposes.(*) It should be noted that recent legislation has broadened the policy for selling excess State lands to local governmental entities at reduced values.

2. This Agency has been aware of deficiencies in the surplus identification program. We recently recommended to the Governor a proposal requiring directors of land-holding agencies to actively participate with General Services in reviewing those properties under their jurisdiction. This review would involve the following steps:

   a. Identify properties which are currently being utilized effectively.

(*)Auditor General's Comment: These figures do not correspond to the figures cited in our final report as a result of changes we made in response to the Health and Welfare Agency's comments on our draft report. See our footnote on page 46.

DEPARTMENTS AND PROGRAMS OF THE AGENCY

Building Standards Commission • Consumer Affairs • Fair Employment & Housing • Fire Marshal
Franchise Tax Board • General Services • Museum of Science & Industry • Personnel Board
Public Broadcasting Commission • Public Employees' Retirement System
Statewide Compliance Coordination • Teachers' Retirement System • Veterans Affairs

b. Determine those properties which could be better utilized for:

1). Multi-State uses.
2). Joint State and local government uses.
3). Other State agency program needs.

c. Determine properties that are being held for long-range program needs which could produce income via interim leases.

d. Designate those properties not required for governmental use to be declared surplus and sold.

e. In the event there is disagreement as to whether a parcel of land should be declared surplus, between the affected agency and the Director of General Services, the issues will be reviewed by the Director of Finance for final determination.

3. A review procedure of all current lease agreements of land-holding agencies will be implemented and incorporated into this department's land management review program procedures.

4. A more precise definition for "excess lands" will be formulated for the State Administrative Manual and, if determined necessary, this revised definition will be incorporated into legislation.

We found the report's conclusions to be an objective analysis of specific problems involving this State's land management program. We would cite that the specific surplus land mentioned in connection with the California Veterans Home is currently being studied and every effort is being made to determine alternatives which will put the land to better use and produce revenues for the State. In studying this issue, the Department of Veterans Affairs has solicited public proposals for such conversion.

Sincerely,

A. A. PIERCE
Undersecretary

AAP:jk

THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD · CHICO · DOMINGUEZ HILLS · FRESNO · FULLERTON · HAYWARD · HUMBOLDT
POMONA · SACRAMENTO · SAN BERNARDINO · SAN DIEGO · SAN FRANCISCO · SAN JOSE
LONG BEACH · LOS ANGELES · NORTHRIDGE
SAN LUIS OBISPO · SONOMA · STANISLAUS

OFFICE OF THE CHANCELLOR
(213) 590- 5501

December 6, 1983

Mr. Thomas W. Hayes
Auditor General
State of California
Office of the Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Hayes:

My staff has reviewed the draft of the Report by the Office of the Auditor General to the Joint Legislative Audit Committee entitled "California Could Earn Millions Of Dollars From Better Management Of Its Excess Land" dated December 1983.

I am pleased to respond in the order presented in your report.

Recommendation

The audit report includes .4 of an acre at California State University, Hayward as part of the 139 acres identified as excess land in Charts 2 and 3 on pages 10 and 17 respectively.

CSU Response

The California State University concurs that the .4 acre is excess land at California State University, Hayward. This surplus land was reported to the Department of General Services by the Chancellor's Office in November 1983.

Recommendation

The audit report in Tables 2 and 3 also includes 130.76 of the 139 acres at California State College, San Bernardino as excess land.

CSU Response

The major portions of these 130.76 acres at California State College, San Bernardino are Badger Hill and an area inside the master planned loop road. The Badger Hill area contains approximately 92.7 acres. The 52 acres of the 92.7 acres were given to the College by two property owners for the purpose of protecting the esthetics and providing a backdrop for the College. Badger Hill was also purchased for this purpose at the urging of

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the City of San Bernardino. It is a dominate physical feature of the campus site. The City felt "that Badger Hill was an intricate part of the college campus" and the area had "little financial value". The City "would not be concerned should it be taken off the tax roles".

The value of 92.70 acres at $370,800 indicated in the report is questioned. Badger Hill has a steep slope (25%±) so as to make development extremely costly and hence would tend to reduce its value for development. The 92.70 acres is therefore considered essential to the College.① *

The other major area comprises approximately 35.83 acres and is between Badger Hill and the campus academic core. This acreage should not be declared surplus but retained by the State as a buffer. Also it should be retained to meet possible increased future needs for the college if the enrollment of this campus is increased as dictated by regional needs. The Inland Empire, San Bernardino and Riverside Counties, is one of the fastest growing regions in the United States. The Population Research Unit of the Department of Finance has projected a 40.5 percent increase in population in San Bernardino County over the 1980 census figure of 903,100 to 1,269,100 persons in 1990.②

The California State University recommends that the two major areas at California State College, San Bernardino consisting of approximately 128.53 acres not be declared surplus.

The remaining two areas of approximately 2.23 acres adjacent to North Park Boulevard and its extension may be declared surplus.

Recommendation

The audit report in Tables 2 and 3 on pages 10 and 17 respectively identifies 139 acres of property owned by The California State University System as excess land that is not needed for programs. Included in this 139 acres is 3.85 acres of land on the California Polytechnic State University, San Luis Obispo campus.

CSU Response

The California State University agrees that the 3.85 acres is surplus to the needs of the University. However, the California State University recommends the following:

1. Disposal of the property be deferred until the courts render a decision on an annexation referendum to assure the University a maximum return on the sale of the property.

2. The proceeds from the sale of the property be deposited to the credit of the University as stipulated in the Education Code, Section 90406.

*The Auditor General's comments on specific points contained in the agency's response appear on page 39.

Also, plans are being formulated to develop approximately four acres for an Instructional Television Fixed Service (ITFS) Transmission Facility. A revision to the Physical Master Plan to include this facility will be presented to the Board of Trustees for approval on January 18, 1984. This has been made possible recently by the deregulation of Instructional Television Fixed Service (ITFS) that allows limited commercial use. The University plans to have a private corporation construct and equip the ITFS station in exchange for lease rights of excess channel capacity.

Recommendation

The audit report on page 22 states that California State University, Dominguez Hills has retained land for future use from which the state does not derive revenue or other benefits. The report recommends leasing approximately 56 acres until the land is needed for development by the University.

CSU Response

The California State University concurs with the audit report regarding the lease of land at California State University, Dominguez Hills. That is, "the University could derive revenues or benefits by negotiating an interim lease for this unused land" (56 acres). "The lease could be consistent with the University's recently developed guidelines for campus use."

We appreciate having an opportunity to comment on this audit report. Should you or your staff have any questions on the responses, please contact Dr. Jack C. Emmons, Acting Director, Physical Planning and Development on ATSS 635-5635.

Sincerely,

W Ann Reynolds

W. Ann Reynolds
Chancellor

WAR:lk

cc: Dr. Warren J. Baker
Dr. Anthony H. Evans
Dr. Austin J. Gerber
Dr. Donald R. Gerth
Dr. Ellis E. McCune
Mr. D. Dale Hanner
Dr. William E. Vandament
Dr. John M. Smart
Mr. Fred Dalton
Dr. Jack C. Emmons

Auditor General Comments

(1) The $370,800 value is based on information obtained from the county assessor's office, which compares this land with similar land located nearby. We used the most conservative value within the range of values provided by the county assessor's office.

(2) The California State University states that the Department of Finance projects a 40.5 percent increase in population for San Bernardino County over the 1980 census figure. In spite of this we conclude that this 35.83 acres is excess to the needs of California State College, San Bernardino. The university's 1983-84 budgeted enrollment is 3,850 students. The university projects enrollment to increase to 3,950 by 1990. The university's master plan for development anticipates a maximum enrollment of 12,000 students, or a 212 percent increase. The master plan should accommodate a 40.5 percent increase in population for this area. The university's master plan for 12,000 students does not include the development of Badger Hill or the 35.83 acres between Badger Hill and the campus.

GEORGE DEUKMEJIAN, *Governor*

STATE OF CALIFORNIA

HEALTH and WELFARE AGENCY
OFFICE OF THE SECRETARY
1600 NINTH STREET, ROOM 460
Sacramento, California 95814
(916) 445-6951

December 7, 1983

Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

RESPONSE TO AUDIT REPORT P-306

As requested, this response is confined to areas of the subject report in which the Department of Developmental Services (DDS) is specifically discussed. This response will first address hospital specific incidences noted in the report, then departmental specific issues, and finally general issues effecting the Department.

I. HOSPITAL SPECIFIC INCIDENCES

A. pp iii, Agencies Are Failing To Collect Lease Expenses

ISSUE: Sonoma State Hospital leases 600 sq. ft. of building space to the United States Postal Service for $18.42 per month; the lease does not contain a provision for the State to collect the utility costs associated with the lease.

RESPONSE: This Department is currently renegotiating the terms of Lease No. L-863 with the United States Post Office for full reimbursement of utility costs upon receipt of monthly invoice from the hospital accounting office.

B. pp 12, 13, Examples Of Excess Land

ISSUE: At Napa State Hospital, 30 acres along Highway 29 are vacant and unused.

RESPONSE: In a memorandum dated November 30, 1983 to the Director of the Department of General Services, the 30 acres at Napa were declared as surplus with a restriction to agricultural use only for buffer zone purposes.

C. pp 23-24, Land Management by State Agencies Does Not Always Promote The Greatest Economic Return On The Land

ISSUE: Sonoma State Hospital retains 850+ acres as watershed. The hospital has never conducted economic analyses to determine if, a) selective timber harvesting would be feasible and economical, or b) if additional natural water runoff could be diverted to supplement hospital water needs.

RESPONSE: State hospital staff have neither the technical expertise nor the resources to accomplish such economic analyses. We would defer such projects to the appropriate agency; however, the cost of such studies would be charged to this Department and no funds are currently available for this purpose. We will attempt to identify a funding source for this project and will seek consultative assistance from the Department of Forestry.

D. pp 26-28, The State Is Not Collecting Leasing Expenses

ISSUE: A lease at Camarillo State Hospital did not provide for collecting all utility costs.

RESPONSE: The hospital updated the lease on July 1, 1983 to pay all utility costs.

ISSUE: Sonoma State Hospital leases 600 sq. ft. of building space to the United Postal Service; the lease does not contain a provision for collecting all reimbursable utility costs.

RESPONSE: The hospital is currently renegotiating the terms of this lease to provide for reimbursement for all utility costs.

II. DEPARTMENT SPECIFIC ISSUES

A. pp 9, 10, State Agencies Do Not Report All Excess Land

ISSUE: Table 2, page 10 identifies 1,098 acres of land in eleven state hospitals as excess.(*)

RESPONSE: The auditors identified the parcels of land at each state hospital which comprise the 1,098 acres in their exit conference with this Department. We have reviewed the status of each parcel, and the following are our conclusions and action plans for each parcel:

Agnews State Hospital

Four parcels of land were recommended as surplus to the needs of Agnews State Hospital. The approximately seventy (70) acre parcel on the West campus was declared surplus by DDS in a memorandum to the Director of the Department of General Services dated October 26, 1983. The remaining landholdings at Agnews State Hospital are currently under study by this Department and a report will be submitted to the Governor's office by the first of the year. The report will address client population projections for Agnews, the feasibility of consolidating services on one campus, and a possible three to five-year phase-out of the other campus, including cost factors involved in providing all essential services and facilities on one campus. Consolidation of Agnews State Hospital to one campus would require retention of some vacant land for major construction of new facilities, streets, parking areas, etc. When a decision is made regarding utilization of Agnews State Hospital, landholdings not used for programs or planned for future programs will be declared surplus to departmental needs.

Camarillo State Hospital

Two hundred ninety (290) acres North of the hospital building complex, bounded on the South by a flood control diversion channel are recommended as potentially surplus. The 290 acres were declared surplus by DDS in past years and were authorized for sale by legislation. The sale of this land was placed "on hold" by the Department of Finance for possible future correctional facilities, but the land has now been released for sale. This land is currently under the jurisdiction of the Department of General Services.

(*)Auditor General's Comment: These figures do not correspond to the figures cited in our final report. See our footnote on page 46.

An additional two hundred sixty-six (266) acres are recommended as potentially surplus to needs. The areas identified include Round Mountain which is located west of the main building complex and bordered by CAMROSA Sewage Plant and West Potrero Road (County Road), Peanut Hill which is located west of the main building complex, perimeter areas along the southeast boundary of the hospital landholdings, and a large area northeast of the main building complex.

The area of Round Mountain is not used for current programs, nor is it planned for future programs. This area will be formally declared surplus by DDS within 90 days, retaining necessary utility and road access easements to West Potrero Road.

Peanut Hill, the flat land directly south of Peanut Hill, the land southwest of Peanut Hill, and the dam along the levee are not currently required for programs. This area wil be formally declared as surplus by DDS within 90 days, retaining necessary easements. We will request that the sale of the land include a provision for perimeter fencing and a restriction to agricultural use of the land only, due to the proximity of client-occupied space immediately adjacent to the land to be sold.

The hilly area southeast of the main building complex and southwest of the Childrens' Units is not required for programs and will be declared surplus by DDS within 90 days, retaining necessary easements. We will request that the sale of this area include a provision for perimeter fencing and a restriction to agricultural use only, due to the proximity of client-occupied space immediately adjacent to the land to be sold.

The large area which is bounded by Rincon Drive on the south, the hospital main entrance road along the west, and the hospital property line on the north is comprised of steep, cactus-covered hills. To the east of this "hilly" area, the land levels off and occupied residences are located on the developable land. There are a number of improvements located within this large area which are essential to the on-going operation of Camarillo State Hospital. These include two water reservoirs of 1,000,000 gallons each, one water reservoir of 226,700 gallons, one soft water reservoir of 100,000 gallons, a booster reservoir of 1,500,000 gallons, a settling tank of 100,000

gallons, power/cable television pole lines, and the residents' Camp Blue Sky. In addition, the hospital entrance road is along the west border of this area. With the exception of the above-mentioned improvements, the land is not used for hospital programs, and will formally be declared surplus by DDS within 90 days, retaining necessary improvements, easements, and a 30-foot setback area along the main entrance road. We will request the sale of this land includes a provision for perimeter fencing and a restriction to agricultural or grazing use in areas adjacent to client-occupied space.

Napa State Hospital

Three parcels of land have been recommended as potentially surplus to the needs of Napa State Hospital.

The first parcel of approximately one hundred and one (101) acres is located south of Imola Boulevard and east of State Highway 29. This parcel was declared surplus by DDS and authorized for sale pursuant to Section 151.20, Chapter 323, Statutes of 1983. The parcel is currently leased to a rock quarry, with the lease expiring August 31, 1986.

The second parcel consists of approximately thirty (30) acres of vacant land along the "front" of the hospital, along State Highway 29. This parcel is surplus to departmental needs and was formally declared as surplus to the Director of the Departmental of General Services in a memorandum dated November 30, 1983.

The third parcel recommended as potential surplus is reported to be approximately seventy (70) acres, being east of the hospital building complex and north of the land currently leased to Dillingham Heavy Construction, Basalt, Products Division. This narrow, somewhat mountainous corridor is the access route to the residents' Camp Coombs. Also, state hospital staff are required by Dam Safety Division to maintain and check valves, water levels, and safety of Lake Marie. The access to Lake Marie is also through this area. A portion of this area is planned for future development of Camp Coombs and some of the proposed area appears to be within the boundaries of the parcel leased to the County of Napa (Skyline Park). There may be remaining landholdings which are surplus to hospital needs and which could be declared surplus, retaining necessary access easements. We will request a re-survey of the proposed 70+ acres at Napa by the Department of General Services to determine the actual location of the surplus acreage in question.

Patton State Hospital - Department of Mental Health

Forty-four (44) acres located south of Highland Avenue are recommended as potentially surplus to Patton State Hospital.

All landholdings south of Highland Avenue were declared surplus by the Department of Mental Health and were authorized for sale pursuant to Chapter 1266, Statutes of 1982. According to Real Estate Service Division staff, the property has been marketed, but not yet sold.(*)

Sonoma State Hospital

Forty (40) acres are proposed to be recommended as surplus to departmental needs. The parcel is located along the facility's east boundary line, adjacent to State Highway 12.

The approximately forty (40) acres have been declared surplus by DDS and authorized for sale pursuant to Section 151.20, Chapter 323, Statutes of 1983.

B. pp 25-28, 30, The State is Not Collecting Leasing Expenses

ISSUE: Three state hospitals in the sample did not collect all reimbursable expenses because hospitals did not update leases to include adequate charges for maintenance and utilities.

RESPONSE: In past years, leases were not closely scrutinized by this Department to assure adequate charges for utilities and maintenance, nor in the past has the Department of General Services reviewed utility and maintenance charges in our leases. As a result, some multi-year leases do not include provisions for adjusting such charges as hospital costs increase. In June of 1983, DDS developed a "State Hospital Real Property Procedure Manual", which was reviewed and approved by the Department of General Services' Legal and Real Estate Services Division staff. The manual has been distributed to all state hospitals, and pages 12 and 13 require the following language to be included in all new leases or renewals of existing leases:

(*)Auditor General's Comment: We have revised the figures in Tables 2 and 3 on pages 10 and 17 of our report and all other references to these figures in our report to reflect this information.

"RENTAL BREAKDOWN

7. It is agreed between the parties hereto that the rental of $_____, per month is the actual rental cost to the STATE as of the commencement of this Lease for furnishing space, utilities, administration, and normal minimum maintenance to LESSEE. This rate excludes any telephone and janitorial charges. Rental breakdown is as follows:

Space . . . . . .$_____ per month
Administration. . . . .$_____ per month
Utilities . . . . . .$_____ per month
Maintenance . . . . . .$_____ per month
Total . . .$_____ per month

"RENTAL ADJUSTMENT

8. It is hereby mutually agreed that, notwithstanding anything to the contrary herein contained and in the event the costs to the STATE to furnish space, maintenance, and administrative services increase during the term hereof, the monthly rental rate shall, at the option of the STATE, be adjusted to include such increase in costs, effective upon commencement of the next following anniversary date of the Lease. LESSEE'S monthly rental rate for utilities may be adjusted at the option of the STATE to include any increase in the cost to the STATE of furnishing said utilities. STATE will give LESSEE written notice of increase in utility rate thirty (30) days prior to date when said increase shall become effective."

In addition, page 3 of the manual includes the following directions:

"When preparing a lease for renewal, rental charges should be examined and adjusted to reflect current costs, especially for utilities, maintenance, and administrative services supplied by the hospital, as well as space rent. Inflationary and other increases in the State's costs should be reflected in an increase in the rental amount charged to the Lessee."

We believe that a mechanism for collecting reimbursable state hospital expenses is now in place for new leases or renewals of existing leases. We will begin a systematic review of all existing By-State Leases to assure reimbursement for actual utility and maintenance costs.

III. GENERAL ISSUES

A. pp 13-14, The State's System for Identifying Excess Land is Ineffective

ISSUE: The Department of Developmental Services did not report any excess land in the 1982 report to the Department of General Services.

RESPONSE: Since 1953, over 6,000 acres of state hospital land has been declared surplus. This figure includes the closure and subsequent sale and/or transfer of DeWitt, Mendocino, Modesto, and (proposed) San Fernando State Hospitals. In past years, state hospitals in California functioned as small "communities" which were, to some extent self-supporting. Hospitals provided not only housing, treatment, and 24-hour care for residents, but also much of the food required. Large parcels of land surrounding the occupied hospital buildings were used for produce farming, fruit orchards, hog and cattle raising, hay and grain crops, chicken ranches, etc. Eventually it was no longer economically feasible for hospitals to grow their own foodstuffs and farmlands were either leased out, converted to other program uses, or declared surplus and transferred or sold. Hospitals are now reluctant to declare as surplus those remaining landholdings which are adjacent to occupied buildings or land used for hospital programs, due to the resultant consequences. Community development of both residential dwellings and light industry are now immediately adjacent to hospital boundary lines at several hospitals. At Metropolitan State Hospital, public outcry and pressure from the City Council over hospital security resulted in a two-phase capital outlay project to install and upgrade perimeter fencing around the entire institution. This project was completed over fiscal years 1980-81 and 1981-82 at a cost of $246,397.00. At Patton State Hospital, a similar project for security improvements is being submitted for funding of construction in fiscal year 1984-85 in the amount of $1,719,000.00. The 100% working drawings and Environmental Impact Report have been completed for the Patton project at a cost of $71,975.00. Numerous smaller security and privacy projects have been completed by hospitals using maintenance of structures funds. Land at Fairview State Hospital was sold to the City for a public golf course; when the golf course was opened to the public, the hospital had to purchase and install "privacy slats" in the chain-link fencing separating the hospital and the golf course because golf course patrons complained about being able to see hospital residents. Sonoma State Hospital is currently spending $4,693.00 from their

maintenance of structures allocation to install boundary fencing due to complaints from neighbors about residents living in a nearby hospital building. Because of these incidents, hospitals are reluctant to declare as surplus land which is adjacant to resident-occupied buildings or resident used land.

The safety of residents is a major issue to be considered when hospital land is recommended to be declared as surplus. At Camarillo State Hospital, as an example, we have attempted unsuccessfully to have the installation of boundary fencing included as a condition of the sale of surplus property. Unfortunately, a resident wandered onto flooded land a few years ago and drowned. The request was denied by the Department of Finance with a recommendation that we submit a capital outlay project for fencing. A capital outlay project had been previously submitted for the fencing, but was not supported due to the low priority of the project relative to other projects. Where vacant land is located between occupied areas of state hospitals and busy streets or industrial areas, we feel it is in the best interests of hospital residents, many of whom do not have an awareness of hazards, to retain this type of land as a "buffer zone". For these reasons, hospitals are reluctant to declare such landholdings as surplus to needs.

Thank you for the opportunity to respond to your report. Should you have any questions or require any additional information, please contact me at the given number.

Sincerely,

for DAVID B. SWOAP
Secretary

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps