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STATE OF CALIFORNIA
DEPARTMENT OF GENERAL SERVICES

STATE PROPERTY MANAGEMENT DEMONSTRATION PROJECT

Implementation Strategy and
Business Plan for
The California Public
Real Estate Development
and Management
Corporation

May 1988

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This report consisting of seven related chapters encompassing deliverables 1 through 8.

TABLE OF CONTENTS

Executive Summary

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PROPERTY MANAGEMENT DEMONSTRATION PROJECT

EXECUTIVE SUMMARY

Background

In response to a 1986 recommendation of The Commission on California State Government Organization and Economy, the Governor and the California State Legislature approved legislation to conduct a State Property Management Demonstration Project to determine how the State might implement an aggressive strategic real estate asset management and development program. The Project was organized and supervised by the Office of Real Estate and Design Services (OREDS) within the Department of General Services (DGS). DGS convened an advisory committee to assist with the project. A list of committee members is in Appendix A. The firm of Deloitte Haskins & Sells (DH&S) was selected to conduct the Project, and this report represents the DH&S recommendations concerning the establishment of a California Public Real Estate Development and Management Corporation.

The State Property Management Demonstration Project

Work on the State Property Management Demonstration Project began in October 1987 and its first four objectives laid the research and conceptual groundwork for the recommendations contained in this report. In summary, these four preliminary tasks were as follows:

1. Establishment of a bibliography of data sources for State real estate asset management decision-making.

2. Creation of a real estate decision-making rules system and application of the rules to choose three case study properties.

3. Exploration of alternative methods for financing State real property transactions.

4. Estimation of potential revenues to be generated, using three case study examples.

The bibliography and decision rules are in Appendix B and C to this report and the alternative financing mechanisms are described in Appendix D. The State is currently using many of the mechanisms on a limited basis.

Based on an analysis of three properties, revenue/cost savings for the Demonstration Area could be $7.3 million from one-time transactions, such as sales, and $4.8 to $10.8 million annually, such as ground lease revenues. These estimates represent the total estimated gain for only three properties, thus gain for the Area might be significantly higher. The estimates are not intended to show actual gain, but rather to show the potential magnitude of gain available. Actual gains will depend upon the negotiation of each transaction. A detailed analysis of the cases is in Appendix E.

In general, the State can derive gains from five techniques: land repositioning, more efficient space usage, private sector building efficiencies, alternative financing mechanisms, and increased efficiencies from centralized public development. A theoretical analysis of these five techniques using the case studies as examples is presented in the body of the report.

Strengths and Weaknesses of DGS Operations and Alternative Strategies Available

DH&S surveyed 13 State agencies to assess real estate operations and suggestions for change. Survey findings showed that there was strong support for changes to the current real estate management system. The goals of such a change would be to increase response time to service agencies' real estate needs and to increase revenue/cost savings to the State

Based on the survey findings, a survey of real estate management departments in other States, and past research by DH&S on local government real estate departments, DH&S and DGS selected six critical factors for successful program implementation:

- Clear, measurable goals, so that all players, including the Legislature, are moving in the same direction.
- Political support, including enabling legislation and a political "champion"
- Private sector support, both from the local business community and from consultants
- Flexibility to adapt to changes in markets and in demand for services
- Incentives for agencies to participate and for staff to "go the extra mile"
- Clearly defined authority and responsibility.

DGS and OREDS are not presently organized to emphasize these factors. There are no clear goals, nor is there definite political support. For example, DGS is not authorized to enter into long-term ground leases (over 5 years) and must obtain specific statutory approvals for individual projects or for the sale or lease of surplus land. There is little flexibility in staffing due to civil service requirements and the goal to minimize personnel years. There are no incentives for agencies to proactively manage. Inadequate staffing has caused responsibility lines to become blurred due to slow response times, particularly with regard to lease negotiation requests.

Most agencies make the strategic and operational decisions on their real estate, which results in an additional blurring of responsibilities. The blurred responsibilities and lack of real estate expertise within some agencies means major innovative revenue producing projects are the exception rather than the rule.

Proactive public real estate management mirrors private sector management of real estate assets. Therefore, alternative organizational structures would have different degrees of private sector involvement. On one end of the scale is minimal private involvement which would suggest increasing DGS staff would improve service and begin proactive management. This method would require additional personnel years and would mean staffing would not be flexible to change with demand. On the other end of the scale is maximum private involvement by contracting out all real estate management to the private sector. This option presents substantial State constitutional issues, in that it would place public assets in private, and thus not publicly accountable, hands. Even if such privatization were constitutional and did provide increased efficiencies and flexibility, there would be no assurance that quality would be maintained without substantial State oversight. The best and recommended solution has an intermediate amount of private sector involvement by establishing a separate public entity, which, while maintaining the public accountability of a public entity, would have many of the attributes of a private autonomous entity. Such a corporation, board, or commission, would have a permanent staff but would utilize consultants to provide flexibility and efficiency and the necessary real estate skills.

Experience indicates that public real estate entities function best with a politically responsible executive director and minimum permanent staff. The most efficient organizations rely largely on outside consulting and advisory services to manage and develop real estate assets. Similarly, we have found that private real estate entities, with similar responsibilities, function best with a small staff and outside consulting resources.

Recommended Strategy and Business Plan for the California Public Real Estate Development and Management Corporation

The recommended strategy is to establish by statute a new public entity, the California Public Real Estate Development and Management Corporation. This entity would have a Governing Board composed of the Director of DGS as Chairman, two representatives appointed by the Governor, and a representative appointed by each House of the State Legislature. Two additional Advisory Boards would serve as forums for sharing ideas: one composed of private sector real estate experts and the other composed of agency representatives expert in their own real estate asset programs. The proposed organization structure is shown in the organization chart at the end of this executive summary.

The Public Corporation would have an Executive Director, who would be a political appointee, and a permanent staff. The Public Corporation would make use of non-civil service contract employees with specific private sector real estate and financing skills for specific projects. In addition, the Executive Director would make extensive use of outside consulting, legal, and financial services.

The ultimate staffing of the entity would depend upon the programmatic responsibility given to the entity, and the scope of this study does not include a full staffing and operations plan. In general, some of the activities suggested below may be best performed by a permanent staff, such as creating and maintaining the computerized data base. This expertise, as well as project development and management expertise, currently resides within DGS and might be moved to the new entity at a later point in time. The goal is to staff the entity with existing personnel or consultants in order to minimize the number of new personnel years required.

The Public Corporation's staff would need a knowledge of State real estate assets, agency space use needs, the budgeting process, and fiscal efficiency. In particular, staff and consultants would have experience in public/private real estate development and real estate financing techniques.

The primary clients would be State agencies that own real estate. The Corporation initially would be responsible for the following:

- Act as resource for all State agencies concerning space and land utilization, real estate development, and public/private approaches to asset management.

- Serve as coordinator among agencies having real estate assets, the Treasury and Department of Finance (which finances those agencies), and the Legislature (which reviews those operations).

- Negotiate all large scale real estate transactions. In particular, the entity would have the skills required to deal with local government planning and zoning issues concerning State real estate assets.

- Maintain the centralized computer data base and land inventory of all State of California real estate assets.

- Review and monitor asset management plans of all State agencies.

- Create revenue from public real estate assets, including surplus property disposition.

Over the long-term these tasks and responsibilities would be enlarged to include the following:

- Develop all large-scale public projects, which would include exploring the possible use of "turnkey" project development and other techniques.

- Provide a clearinghouse for all financings of California public capital project developments, which would generate cost savings due to the consolidation of financings for smaller projects.

The implementation plan is straightforward. Initially, the Public Corporation would focus on selected targets of opportunity and have short-term goals. The steps required for implementation are 1) create the Public Corporation by statute, 2) establish a staffing and operations plan, 3) establish qualitative and quantitative goals for the first three years of operation, 4) focus the first years of operation on key targets of opportunity, 5) in addition to the annual budget review, review the Public Corporation's performance against its goals at the end of two years and every two years thereafter, and 6) publicize the savings and revenues which are gained.

The Public Corporation could contract out services to consultants or in-house real estate personnel as appropriate. The more services that are contracted require fewer personnel years to be created by the program.

Funding would be in two stages. The first stage would require a start-up funding appropriation from the legislature. Start-up funds would be used for hiring the Director and staff, and setting up systems and procedures. All future funding would be based on minimal annual operational fees and one-time transaction fees earned, payable from the transaction proceeds to the Public Corporation, <u>after</u> the transaction has closed.

Experience indicates that the most efficient real estate entities are those whose existence depends on their success in developing and managing real estate. Thus, our implementation plan and funding suggestions are designed to make the entity subject to two-year goal and performance reviews, in addition to the annual budget review.

Overcoming Bureaucratic Resistance

There is currently little incentive for agency administrators to efficiently use real estate assets because there is little cost assigned to holding the unused asset. In addition, the "profits" of efficient use do not flow to the efficient administrator's agency but rather go to the General Fund. Compounding these problems are a perceived lack of responsiveness on the part of the present DGS operation.

To overcome the resistance to the new program embodied in the Public Corporation, four approaches are suggested:

- Asset management planning. The Public Corporation will assist the agencies to prepare annual real property management plans, to be completed simultaneously with the budget planning process. In addition, each agency will be required to include a cost efficiency/revenue production plan in all large real estate undertakings.

- Budget review. The Public Corporation, working closely with the Department of Finance, will review and selectively audit the annual agency plans. Inadequate attention to real estate asset use will result in budget reductions and, in the case of underutilized real property assets, a transfer of control of the assets to the Public Corporation.

- Incentives. The cooperating efficient agency should receive a certain portion of revenue created. Assuming the statutory mandate and constitutional authority, the Public Corporation would allocate these funds based on the assets held by the agency, the holdings created, and ongoing real estate managed. These funds should be discretionary to the agency and should not be subject to recapture during the annual budget process. In addition, the Department of Personnel Administration program of awards for efficient state government (which is presently limited to awards to individual State employees based on efficiency during the first year of operation) should be expanded. This program should include rewards for real estate efficiencies which often do not show a return until well after the first year of implementation. The maximum award of $3,000 should be increased to $10,000.

- Service delivery. Finally, an innovative entrepreneurial Public Corporation which is responsive to agency needs will immediately reduce resistance to the program. As key demonstration projects are implemented and their success (and the related agency rewards for that success) are publicized, support will increase for the program.

Legal Analysis

The California Public Real Estate Development and Management Corporation will be created by statute. Like other special-purpose public entities (e.g., the Capital Area Development Corporation), it will require the Legislature to define its responsibilities, particularly with regard to State agencies whose real estate assets are constitutionally separate (such as the University of California) or owned in conjunction with other governmental entities (such as CalTrans Highway Trust Fund projects with the Federal Government).

Further legal research will need to be undertaken to determine the limits on a public entity's ability to contract outside of the entity for specific real estate skills. In addition, once the entity is functioning, the Public Corporation will have to analyze the myriad legal barriers to efficient real estate asset management presented by the various agencies' statutory frameworks and to suggest a series of ongoing redrafting of those statutes to make efficient real estate asset management more feasible. In particular, various intra-governmental first priority and give-away programs will need to be examined.

Our research showed that, in order to function effectively, the public real estate entity must have the authority to negotiate and to finalize agreements which are not subject to revocation by individual legislators. Accordingly, we recommend that the legislative review occur early in the management process before significant resources have been expended. The present requirements of legislative notice at a late point in the process should be reviewed.

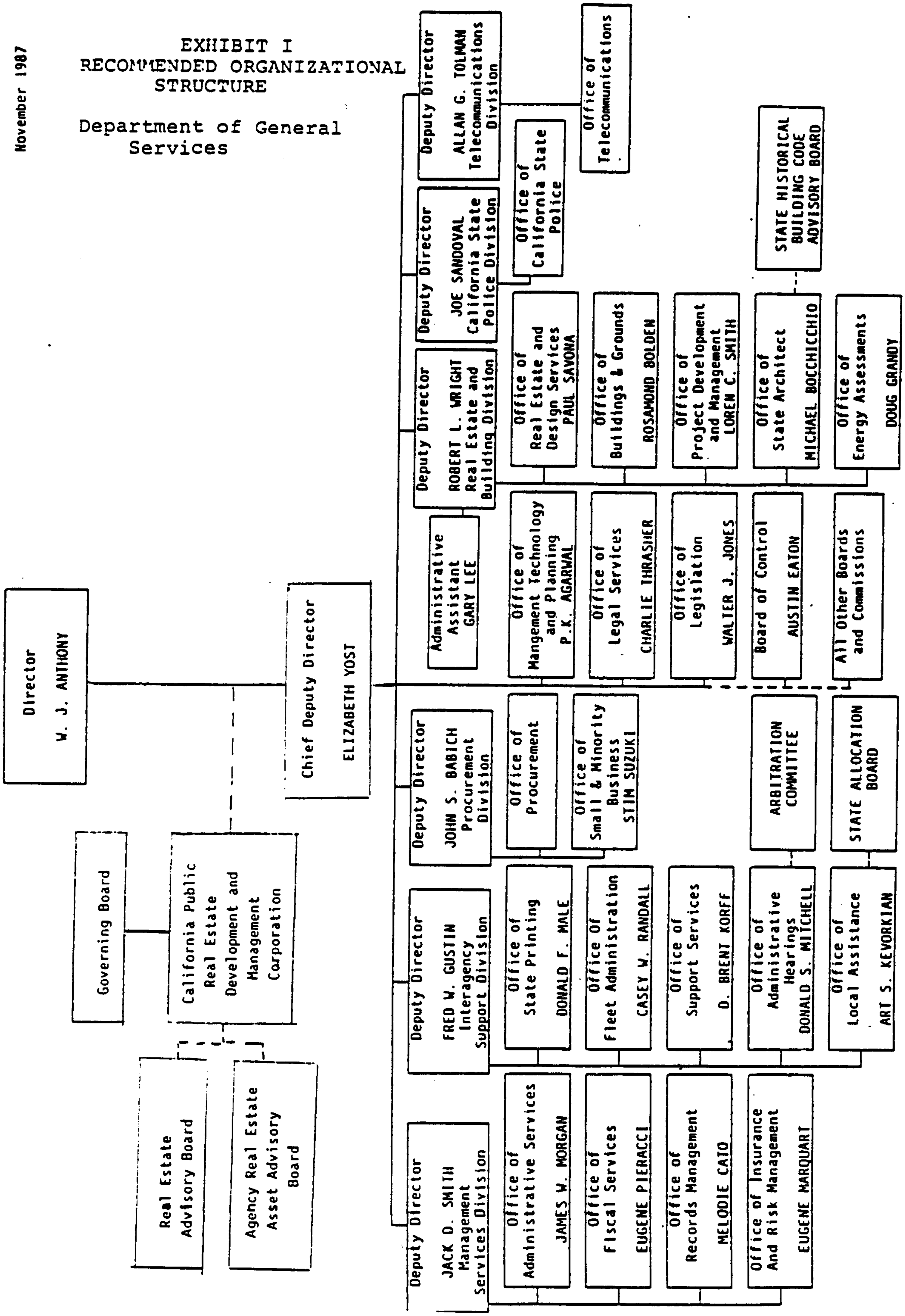
Public Policy

It is recommended that the statutory framework for the Public Corporation include a clear State mandate to efficiently manage the State's real estate assets through both efficient use and revenue production. The Public Corporation will be charged under this mandate to maximize cost effectiveness while protecting the public trust, ensuring public service delivery, and preventing fraud and abuse. The Public Corporation should be capable of effectuating cost savings and revenue generation from these assets of the people of California while ensuring the delivery of public service.

November 1987

EXHIBIT I
RECOMMENDED ORGANIZATIONAL STRUCTURE

Department of General Services



Chapter I

Introduction

Chapter I

Introduction

CHAPTER 1

INTRODUCTION

PURPOSE

The State of California has an immense real estate inventory which, according to the best estimates, exceeds over 65 million square feet of building space and more than six million acres of land. These holdings represent a very valuable property portfolio for the State.

The purpose of this study is to assist the State to better manage its real estate portfolio. To accomplish this aim, this report evaluates the political and economic feasibility of redesigning the State's current system of property management and development into a proactive, strategic asset management system. More specifically, the study has three major objectives:

- Determine relevant information bases for a computerized property management information system and a set of property management decision rules to aid in strategic decisions.

- Estimate the potential cost savings and revenue generation of implementing the strategic property management and development system.

- Establish an organization structure, business plan and implementation strategy for the system.

BACKGROUND: THE NEED FOR AGGRESSIVE STRATEGIC REAL ESTATE MANAGEMENT

This study is in response to a recommendation made by the Commission on California State Government Organization and Economy (Little Hoover Commission) in its March 1986 report, California State Government's Management of Real Property. In that report, the Commission found that the State's current property management system was "neither strategic nor systematic and lacks any incentives to efficiently and effectively (manage) extremely valuable assets." Specific findings included the following:

- State property management is not accountable to one person or agency.

- There is no general strategy for property management that recognizes the properties' value as assets.

- The State does not actively identify opportunities for increasing revenues and cutting costs.

- There are no incentives for a department or its property managers to cut occupancy costs. To the contrary, both are rewarded for "bigger" government.

The Little Hoover Commission findings prompted the Governor and the California State Legislature to approve legislation in July 1986 to instruct the California Department of General Services (DGS) to conduct a State Property Management Demonstration Project (Chapter 444/Statutes of 1986). The intent of the legislation is to ensure that the State thoroughly examines the opportunities for and constraints on redesigning its property management system into an aggressive strategic real estate asset management and development program.

The Roulac Real Estate Consulting Group of the international consulting firm Deloitte Haskins & Sells (DH&S) was selected to conduct the project, and this report presents the DH&S recommendations concerning the establishment of a California Public Real Estate Development and Management Corporation. Work on the State Property Management Demonstration Project began in October 1987. DGS supervised the work, established the project area in San Diego County and developed the eight objectives for the project.

The Department of General Services

DGS was formed in October 1963 to perform a variety of specialized and centralized services formerly handled by other agencies. There are approximately 20 divisions in the department and several related boards and commissions. DGS is in the State Consumer Services Agency.

The Office of Real Estate and Design Services (OREDS) of DGS, with a total of about 140 personnel, has responsibility for the State's real estate functions: site selection, appraisal, appraisal review, acquisition, condemnation, relocation assistance, property management, and sales, involving nearly 20 State agencies. In general, all State agencies which have real estate functions are full-service clients of the division, except those with special use or legislative mandate, such as the Department of Transportation, the Department of Water Resources, the Reclamation Board, the Wildlife Conservation Board, and the University of California. Construction is managed by the Office of Project Development and Management (OPDM), which supervises approximately $500 million a year of public facilities construction.

DGS has authority and responsibility to perform real property management functions. However, 14 other State departments with high volumes of real estate transactions also perform these functions on a decentralized basis.

The Demonstration Project Area

DGS selected a portion of San Diego County for the Demonstration Project Area. The Area was selected, after a Statewide analysis, due to its representative mix of State agencies occupying both government-owned and private facilities, and the mix of activities conducted on the properties. The Demonstration Area includes the City of San Diego and the surrounding communities of Del Mar, El Cajon and Chula Vista.

METHODOLOGY

Project Objectives

DGS identified eight objectives to accomplish the goals of the Demonstration Project. These objectives are:

1. Design a computerized information base and property management decision rules to facilitate the strategic management of the State's properties.

2. Apply the decision rules developed in #1 to analyze the alternative uses for three case study properties.

3. Analyze the advantages and disadvantages of alternative financing options and mechanisms.

4. Estimate the potential revenue generated by proactive management strategies.

5. Develop a business plan for implementation of the property management system.

6. Assess potential bureaucratic resistance to the proposed system and make recommendations for managing this resistance.

7. Analyze legal constraints to implementing the proposed management system and recommend legislative changes, if necessary, to facilitate alternatives that would minimize State costs and maximize State revenue.

8. Analyze the public policy implications of the recommended asset management system.

DGS also convened a twelve-member advisory committee. Committee members were chosen for their real estate expertise, their agency's potential need for proactive real estate management, or their expertise in State agency interaction. DH&S consulted with the committee members on a wide range of issues resulting from our research. Their valuable insights were a significant contribution to this report. A list of advisory committee members is contained in Appendix A.

Project Approach

To accomplish these objectives, DH&S interviewed appropriate agency personnel in the State of California and other states, performed literature searches, used past research done for other clients and drew upon the expertise of our subcontractors. We used our knowledge of real estate theory and strategic management to thoroughly analyze alternatives.

For the first four objectives, our intent was to present a variety of alternatives and their associated advantages and disadvantages. Our intent for the last four objectives was to provide a specific plan, the steps required to implement that plan, and the possible ramifications of the implementation.

Chapter II

Database Design, Decision Rules, and Financial Implications

Chapter II

Database Design, Decision Rules, and Financial Implications

CHAPTER 2

DATA BASE DESIGN, DECISION RULES, AND FINANCIAL IMPLICATIONS
(Objectives 1 through 4)

The first four objectives of the project laid the research and conceptual groundwork for the recommendations contained in this report. In summary, these four preliminary tasks, which are described in this chapter, were as follows:

1. Establishment of a bibliography of data sources for State real estate asset management decision making.

2. Creation of a real estate decision-making rules system and application of the rules to choose three case study properties.

3. Exploration of the alternative methods for financing State real property transactions.

4. Estimation of potential revenues to be generated, using three case-study examples.

This chapter is divided into three sections: data base design, decision rules, and financial implications.

DATA BASE DESIGN (Objective 1 — Bibliography of Data Sources)

This first section covers the first two study objectives:

- Design a computerized information base and property management decision rules to facilitate strategic management.

- Apply the decision rules to various parcels on the Demonstration Area to determine three case-study properties with repositioning potential.

To design the data base and decision rules, DH&S first defined the types of information relevant to a property information system. Then we surveyed all relevant existing data bases in the State to determine what information was readily available at reasonable cost. We reviewed the data elements and services with DH+S personnel and the Advisory Committee.

A bibliography of the existing data bases of greatest relevance to the project is in Appendix B.

DECISION RULES (Objectives 1 and 2 — Development and Application of Property Management Decision Rules/Identification of Case Study Properties)

To develop the decision rules, we applied our knowledge of real estate theory to establish criteria for determining when to reposition a property. The emphasis was on determining "highest and best use" from both an economic and a public service viewpoint.

If a property is ready for repositioning based on these rules, State personnel should perform a more detailed analysis to determine an exact repositioning plan. Repositioning can include many options, such as changing tenants, changing the use, expanding, rehabilitating, or selling.

These rules were applied to various properties in the Demonstration Area to select the three case-study properties. The application resulted in the selection of the following three properties: Downtown San Diego DGS building and land, Del Mar Fairgrounds/Racetrack (22nd Agricultural District), and Old Town Department of Transportation building and land. A complete description of the decision rules and their application to a case-study property is contained in Appendix C.

These decision rules may be applied to various properties on an ongoing basis. They can be used by agency executives to prepare individual project plans and annual asset management plans.

FINANCIAL IMPLICATIONS

This section focuses on quantifying the benefits to the State of proactive real estate management. In particular, we address objectives 3 and 4 of the study:

- Analyze the advantages and disadvantages to the State of alternative financing options and mechanisms.

- Estimate the potential revenue generated by proactive management strategies.

Alternative Financing Techniques (Objective 3)

To analyze alternative financing techniques, we surveyed public finance literature, various State finance officers, and public finance officials. Findings were discussed with DGS legal counsel to determine applicability to the State of California.

A complete list of techniques and their advantages and disadvantages is in Appendix D. We found that the State already engages, in a limited manner, in most of the alternative techniques presented. A few of the more innovative, less used techniques are highlighted below. We believe the State could save financing costs by using these techniques more often.

- Negotiated Capital Investment. A negotiated capital investment is an agreement between the State and a second party where one agrees to fund a capital improvement in return for a concession from the other. For example, a developer may provide a foundation in return for favorable lease terms on a separate property. Or the State may build infrastructure improvements in return for a portion of property cash flow.

  The principal advantage to the State is reduced costs by receipt of a cash payment, valuable concessions or services. The disadvantage is that non-cash transactions can be quite complex, since a value must be placed on the concessions or services.

  The State has begun to use negotiated capital investment techniques. For example, the State assembled land with the City and County of Los Angeles and leased it to a developer for a private-use building in the Civic Center complex. The developer has proposed to build a child care center in the development.

- Land Exchanges. The State may trade land in "like-kind" exchanges with private parties or other public entities in order to assemble larger parcels or to acquire more commercially viable land. Trades should be on a financial value, not square footage, basis.

  The primary advantage is that no cash need exchange hands, nor is debt incurred to obtain a desired parcel. However, the transactions can be quite complex, as there are usually multiple parties involved. Moreover, statutory approval of each transaction is required.

  The new Sacramento Highway Patrol Facility was built using a land exchange. This transaction required special legislative approval to bypass normal surplus land disposition procedures.

- Percentage-of-Revenue Ground Leases. State ground leases typically involve a base annual payment, with perhaps an escalation every five years, based on inflation. The State can earn more revenue by negotiating ground leases that include a percentage of gross revenues from the improvements. A percentage of gross rather than net revenues facilitates the transaction, since operating expenses do not then have to be defined. For long-term leases (greater than 5 years), statutory approval is currently required.

  A recent example is the Los Angeles Civic Center project, where the State ground leases its parcel and receives a percentage of operating proceeds from the private-use building.

- Master Leases. Master leases involve combining multiple commercial leases into one master agreement with standard terms and conditions. The State could negotiate lower lease rates based on the large amount of space occupied.

  The advantage is that the State can save considerable cost by avoiding the expenses involved in multiple smaller transactions. The disadvantage is the difficulty in finding a suitable landlord who owns enough space to make the transaction feasible.

- Pooled-Money Accounts. Pooled-money programs are short-term loan pools funded with currently unused funds or a single large bond issue to cover multiple projects. The funds may be drawn upon as needed.

The primary advantages are reduced issuance or interest costs. Also, the project timing is more flexible. This flexibility allows the State to take advantage of early start circumstances and not to be penalized for late completion.

The State currently has pooled-money accounts, for example, the Public Works Board Investment Account. This account is used for short-term loans for real estate transactions. The Account is funded by pooling monies allocated for other uses but which are not yet needed. In order to borrow, agencies must have a definite source of repayment, that is, have already approved the issuance of bonds to finance the purchase or construction.

Revenue/Savings Estimates (Objective 4)

The purpose of this section is to derive case-study revenue/savings estimates and to analyze their application on a larger scale.

DH&S and DGS used the decision rules in Appendix C to identify three case-study properties out of 21 parcels initially proposed by DGS. The three properties are the Del Mar Fairgrounds/Racetrack, the Downtown DGS Office building, and the CalTrans property next to Old Town.

DH&S visited the properties, interviewed the occupying agency staff, and interviewed real estate professionals in the area to determine a reasonable repositioning strategy and the potential gain. DH&S did not perform a full feasibility study for each project. Thus, the strategies may not ultimately be the highest revenue producing ones. We attempted to incorporate public service and local community goals in the strategies—as well as revenue generation—such as the construction of a public meeting hall at Del Mar and the complete relocation of the CalTrans facility to allow the expansion of Old Town.

The revenue/savings estimates for the case studies are presented in detail in Appendix E.

Based on the case studies, potential gain for the Demonstration Area could be $7.3 million one-time and between $4.8 and $10.8 million annually.

- Application of Techniques. We identified five major revenue/cost savings techniques. We present below a theoretical discussion of the categories with examples from the case studies.

  A future study could develop an appropriate Areawide or Statewide estimation methodology for these five techniques. Some common data elements across techniques, such as acreage, use and market value by parcel, should be available when the State finishes its property inventory.

  - Land repositioning. The State can gain revenues from leasing or selling surplus land, leasing land retained for future use, and repositioning the current use of commercially viable properties.

In the Old Town case-study, the entire parcel (15 acres) could be repositioned from State to commercial use. This repositioning might generate a one-time gain of $2.2 million from sale and annual revenues of $1.1 to $2.7 million from ground leases. In this example, we assumed the CalTrans facility would eventually be relocated, regardless of the repositioning, because the agency needs more space, the existing facilities require major structural changes to bring them up to code, and the local community has expressed interest in expanding Old Town onto the site. The proceeds from this repositioning could be applied against the cost of relocating the CalTrans facility.

In the Downtown property, one parcel (60,000 square feet) could be repositioned from parking to State-use office. The Facilities Plan for San Diego (OPDM) recommends consolidation of privately-leased space. The second parcel (55,500 square feet) contains a smaller State building which could be replaced by a private-use office. The State could ground lease this parcel to a developer for estimated annual revenues of $0.6 to $1.0 million. In Del Mar, 3.5 acres of vacant land could be repositioned for hotel use, for estimated ground lease revenues of $0.4 to $0.9 million per year.

.. <u>More efficient space usage</u>. The State can save costs by using space more efficiently. Savings could be gained in three ways. First, the State could consolidate office space leased from the private sector into a State building. Incremental savings would be the foregone rental increases on the privately leased space. In the Downtown example, by moving into a State facility, market increases might be foregone, for an estimated savings of $0.50/square foot in the first year and $6.35/square foot in the last year or $0.3 million to $1.6 million per year.

Second, less new space might be required. An assumed 5% space savings from consolidation efficiencies (such as shared reception and clerical space) implies a one-time saving of $2.3 million in construction costs in the downtown example.

Third, consolidation efficiencies implies a savings in personnel years. An assumed 5% reduction in personnel would create an estimated savings of $1.3 million in the first year to $2.6 million in the last year.

.. <u>Alternative financing mechanisms</u>. The State is beginning to use many of the financing mechanisms outlined in Appendix D. In the case-studies, the two most applicable techniques were assessing a percent-of-revenue ground rent and using a pooled-money account for construction.

Percentage rents involves assessing a percentage on the revenues generated by the land improvements. The order of magnitude dollar estimates are included in the repositioning land technique above.

A pooled-money account would generate savings in two ways. First, there would be a reduction in the amount of capitalized interest required. A more detailed description of this savings is in Appendix E, Exhibit I. Second, since the State would have to issue less long-term debt, it could save annual interest charges. We estimated that $1.7 million of capitalized interest could be saved in the Downtown case and about $1.1 million in the Old Town case. This implies a one-time savings of $2.8 million. At 8%, the annual savings in long-term interest would be about $0.2 million.

Additional financing mechanisms not covered in the cases are master leases, land exchanges, and other methods to increase value. Use of these mechanisms could also provide savings and revenues for the State.

.. <u>Private-sector building efficiencies</u>. The consensus among participants in the Demonstration Project is that more private-sector efficiencies in both building operations and construction could generate gains for the State. Efficiency savings from improved operations or construction are difficult to estimate. The OPDM builds $500 million in new projects each year. Even a small percentage of savings from construction efficiencies could generate a substantial annual savings for the State.

.. <u>Centralized public-sector development</u>. This last technique covers gains from economies of scale and was, therefore, not addressed in the case-studies. Cost savings from combined public construction could be realized by efficient use of project planning across agencies. Cost savings from pooled permanent financings could be realized from reduced issuance costs and potentially lower interest rates. Revenues generated from development would include a percentage ownership in projects, as well as recognizing the revenue potential within public projects, such as leasing space to a food vendor within a public building.

Chapter III

Strengths and Weaknesses of DGS Operation and Alternative Strategies Available

Chapter III

Strengths and Weaknesses of DGS Operation and Alternative Strategies Available

CHAPTER 3

STRENGTHS AND WEAKNESSES OF DGS OPERATION AND ALTERNATIVE STRATEGIES AVAILABLE (OBJECTIVE 5)

The purpose of this chapter is to assess the current real estate management system within DGS in order to lay the foundation for the recommended organizational structure presented in the next chapter. Specifically, this chapter:

- identifies the strengths and weaknesses of current operations
- presents alternative management structures used by other public entities
- based on the above, presents critical success factors and thus opportunities for improvement
- presents three alternative structures for asset management for the State of California

OREDS' STRENGTHS AND WEAKNESSES — BLURRED RESPONSIBILITY LINES AND A PERCEIVED LACK OF RESPONSIVENESS

Methodology

The strengths and weaknesses of the current operations were determined from interviews with 13 key agency users of OREDS' services. A list of interviewees is in Appendix A. The agencies chosen represent the largest landholders and/or have specialized goals that would imply they have the greatest potential gain from participating in a proactive management program. We also reviewed agency policies and procedures manuals, operating budgets, organization charts, staffing documents and other materials sent by the agencies to verify interview results.

No empirical statistics of job effectiveness, processing time, or efficiency were gathered or analyzed. A more comprehensive review, which was not within the scope of this study, would have included a review of OREDS' work performance, job factor measures, and individual personnel evaluations. DH&S, however, believes the limited measures applied in this study have yielded some general insights into the current management of real estate functions by DGS.

Research was augmented by study findings from previous research in California asset management, e.g., the Little Hoover Commission report, Legislative Analyst reports, and Auditor General reports.

Strengths

In general, the agencies felt that the expertise exists within OREDS to perform most functions, although perhaps not in enough quantity. Seven of the 13 agencies believed that the current system worked well enough, and they had no suggestions for change; however, some of these seven are the more autonomous agencies, such as the Department of Transportation. The autonomous agencies use OREDS for acquisition/disposition approval over a certain amount, appraisals, and some technical expertise. In general, these agencies have substantial control over their daily and strategic real estate decisions.

Weaknesses

The less autonomous agencies identified some weaknesses in the current operation. In the absence of empirical data, it is difficult to assess whether the weaknesses identified are perceived or actual. Moreover, the identified weaknesses do not relate only to OREDS' operations but also to long-term strategic policies that are set at the executive or legislative level, such as the lack of clear goals or determination of benefits.

The survey identified five major weaknesses in the current operation:

- Inadequate Response Time on Lease Requests. The less autonomous agencies believed response time on lease requests is not adequate to meet their needs, perhaps because OREDS was understaffed in some technical areas. OREDS is in a difficult position, as the Legislature is not inclined to increase personnel allocations. The Legislature appears to be sending mixed signals. For example, it has acknowledged there is a management problem and commissioned this study; however it also has sanctioned a 26-week elapsed time as appropriate for lease-renewal backlog (DGS).

- No Clear Negotiation Responsibility. Some agencies perceived overlapping responsibility between the agencies and OREDS in lease and acquisition negotiation. OREDS has the authority and must approve transactions, but often the agency takes on negotiation tasks, due to poor response time and/or the agency's better understanding of its own particular needs.

- No Clear Goals. The agencies were unsure about what strategic real estate management is and were, therefore, unsure how to effectively manage their assets and when to use DGS for strategic assistance. This uncertainty adds to the blurring of lines of responsibility.

- No Clear Benefits to Agencies. The agencies do not share directly in any benefits of proactive management and thus were not motivated to pursue it. Interviewees indicated a willingness to pursue proactive management if appropriate benefits and incentives were introduced.

- Inadequate Communication between Agencies. Most agencies perceived a value in interagency communication. A forum for sharing ideas, success stories and other information would help to educate agency personnel on the benefits and methods of proactive management.

Results

In summary, the less autonomous agencies believed there was a lack of responsiveness to their requests. All the agencies acknowledged that the lines of responsibility were unclear between their units and OREDS. The agencies would like to begin proactively managing their real estate if clear goals and benefits were established and if adequate resources (staff and budget) are provided to achieve the goals. Therefore, the agencies are supportive of changes in the existing system. Two of the initial goals of the changes would be to increase response time to service agencies needs and to increase the revenue/cost savings to the State.

ALTERNATIVE MANAGEMENT STRUCTURES TO ACCOMPLISH GOALS

Property Management Programs In Other States

We also interviewed officials in seven states to determine how real estate functions were organized within other state bureaucracies. The states were Massachusetts, Maryland, Minnesota, Pennsylvania, Virginia, New York and Texas. A detailed description of the results of the interviews is found in Appendix F.

The states have varying degrees of centralization, ranging from Massachusetts which is the most centralized to Virginia, which is the least centralized. The survey was designed to assess how these states performed space allocation, leasing, disposition of surplus property, maintenance, and construction functions. The structures were similar to the present DGS structure, in that all real estate functions were the responsibility of the general administration department, with the exception of Texas, whose land use is managed by the State Lands Commission.

In general, the organizational structure did not appear to materially affect asset management. A legislative mandate granting certain powers to the real estate department did create proactive management.

Regarding specific functions, the space allocation and leasing functions were all managed on the basis of requests by the agencies. Leasing was generally handled by the real estate department, although Virginia allowed agencies to negotiate leases with departmental approval.

The disposition of surplus property was proactively managed by only New York and Texas. These two states required the responsible department to periodically survey agency lands. Texas is even requiring a complete survey to determine market values for all state-owned land to be completed by September 1988, and a plan for the future use of each parcel to be completed by September 1989. Proceeds from the disposition of surplus land usually went to the general fund or a master capital account. New York placed the funds in a variety of accounts related to real estate management. No state allowed the owning agency to retain part of the proceeds.

Programs In Other Public Environments

Past DH&S research into methods of managing public real estate shows there are two structures that appear to function well in proactive management:

- Private Development Corporations and Redevelopment Agencies. These corporations and agencies can be found at the city, county and state level. Typically, the director reports to a senior official in the government. An advisory board of local business people, particularly investment bankers, serves to introduce private sector development and financing ideas to the process. Staff members are generally not subject to civil service requirements; therefore, it is easier to reward good performance with incentive compensation and easier to replace poor performers. Whether the staff is small or large, the corporation relies heavily on its authorization to retain consultants.

The New York State Urban Development Corporation (UDC) deserves special mention. UDC was established in 1968 with all the tools and authority to plan, finance, and negotiate transactions. UDC Chairman and Director of the Board are appointed by the Governor, and funding is by annual appropriation from the legislature.

Under its urban renewal mandate, UDC had the power to override local agency authority. Using this authority caused the corporation to alienate some very important agencies. This alienation, combined with soft underwriting that resulted in some bond defaults, caused UDC to become very unpopular in the early 1970's.

UDC has a new mandate since the late 1970s which includes business development and the development of large projects for public use such as auditoriums and cultural centers. The corporation manages real estate development projects from inception to completion.

Annual funding ranges from $100–200 million from the legislature which is used primarily for housing and business development loans. Bonds are floated only for major capital projects. Total staff is about 200 non-civil service employees, and consultants are used on the very large projects. Unlike the 1960's, UDC now works only with the cooperation of local entities.

A few of the more notable UDC projects include:

.. Participated in the development of the $2.5 billion Battery Park City in Lower Manhattan

.. Is leading the $2.4 billion 42nd Street Development Project, aimed at rehabilitating the Times Square Area of New York City

.. Co-sponsored the development of the $500 million Jacob K. Javits Convention Center in New York City and the $40 million Riverside Convention Center in Rochester

.. Developed numerous planned communities which include residential, manufacturing and office space such as a 2,400 acre site in West Amherst and 3,000 acres in Radisson.

This corporation could serve as a model for California. The current organization has the ability to hire highly motivated staff outside the civil service requirements, receives support from local agencies and the private sector, and receives support from the legislature both in authorizing sufficient funds and in authorizing enabling powers.

- Special Need or Legislative Mandate. Certain agencies are able to proactively manage due to special need or legislative mandate. These agencies include transportation districts, port districts, and state lands commissions. The legislative mandate provides a common goal, allows the agencies to streamline the management process, and, therefore, facilitates proactive management.

CRITICAL SUCCESS FACTORS

Based on the surveys, prior research, and discussions with DGS staff and the Advisory Board, DH&S identified the following critical success factors for proactive real estate management for California:

Clear, Measurable Goals

The agencies surveyed felt there were no clear real estate management goals. The program should have a clear mission statement that defines proactive management so that all players, including DGS, the agencies, and the Legislature, are moving in the same direction. In addition, measurable short-term and long-term goals should be established to help guide daily decisions, with a continuous evaluation process to ensure goals are met. Moreover, the Director's career success must depend upon the success of the program.

Political Support

Political support is key from both the Legislature in granting authority and funding, and from local communities where the assets are located in granting permits and facilitating the repositioning process. A successful program also needs a political champion to help solidify public support.

Private Sector Support

Private sector support would be through an advisory board which helps set policy and through increased use of consultants. This private involvement would help increase operating efficiencies by introducing private sector techniques into construction, leasing, and financing. Moreover, the use of consultants means staffing can increase or decrease with demand and, thus, response time can be improved without additional personnel years.

Flexibility

Flexibility is needed in both hiring and retaining staff and in the ability to structure transactions. Operational autonomy, where the program is outside the normal bureaucracy, would provide some of the flexibility required to structure transactions, would increase response time, and would allow the entity to quickly respond to changing market conditions.

Our experience indicates that public real estate entities function best with a politically responsible executive director and minimum permanent staff. The most efficient organizations rely largely on outside consultants and advisory services to manage and develop real estate assets. Similarly, we have found that private real estate entities function best with a small staff and significant outside consulting resources.

Clearly Defined Authority and Responsibilities

Clearly defined authority and responsibilities, backed by enabling legislation, would aid in achieving program goals. Defined responsibilities would encourage efficiency and would facilitate the process for outside parties, since they would be dealing with one entity and one set of personnel.

Areas for Improvement

DGS and OREDS are not presently organized to emphasize the above factors. There are no clear, measurable goals, no clear legislative mandate, and there is no extensive private sector support. Staffing is not flexible, as it is subject to the legislative limitation on personnel years and to civil service requirements. Most agencies make the strategic and operational decisions on their real estate, which results in a blurring of responsibilities. All of these conditions, and the lack of real estate expertise in some agencies, means major innovative revenue-producing projects are the exception rather than the rule.

ALTERNATIVE ORGANIZATIONAL STRUCTURES

The private sector is able to manage its real estate assets quite lucratively. Allowing for the need to provide public service, public real estate management should incorporate some private sector techniques to also derive revenues from the State's assets. Three different structures are presented below with varying degrees of private involvement and are evaluated in light of the identified critical success factors.

Enlarge In-House DGS Capabilities

This alternative would minimize private involvement. Response times could be improved by expanding in-house DGS capabilities through increased staff and training. Expansion could be within OREDS or by creating a new office within DGS.

The primary benefit is that response time would be improved, provided the staff is hired within a reasonable time frame. The potential problems are that civil service requirements provide little flexibility in the ability to quickly expand staff to meet demand or to reward good performers. Moreover, adding personnel years is not within the overall State goals, due to the high financial cost. It is unclear if agencies would provide political support, since many are currently not satisfied with the current DGS structure.

Privatize and Contract Out All Real Estate Functions

The other end of the spectrum would be to maximize private involvement by contracting out all State real estate functions to the private sector. This option presents substantial State constitutional issues, in that it would place the management of public assets in private hands that were not directly publicly accountable.

The primary operational benefit would be an immediate increase in response time to agency requests with no additional personnel years added. There would be increased flexibility, in that staff could expand or contract with demand with low financial risk. Increased use of consultants would introduce more private sector efficiencies into the process.

The primary organizational problem would be unclear authority. The State would have many real estate representatives in both agencies and consultants with no one entity responsible for overall quality. It would be difficult to monitor the consultants and to evaluate their performance because there would be no in-house expertise available with a true understanding of each project. Also, contractors may not have the overall agency purpose or public service as goals equal in importance to revenue production.

Establish New Public Assets Management Entity

An intermediate step would be to establish a separate public entity which would have many of the attributes of a private, autonomous entity while still retaining public accountability. This entity would have a permanent staff and use contractors as appropriate. The entity would be accountable to a board comprised of State administrators, political appointees and legislators. This entity would view the agencies as clients and would be able to use existing staff or hire consultants as needed.

The benefit is that staffing would be somewhat flexible and the entity could expand or contract with demand. Moreover, staff and contractors would receive continuous evaluation from the board. If the entity has an appropriate legislative mandate, there is clear authority and responsibility, and unified policies and actions would come from one source. An important feature would be to add incentives for individual agencies to encourage participation.

The problems to be addressed are that this entity would need to develop an understanding of individual agency mandates and how real estate management can help it achieve those mandates. Also, the entity's authority will have to be well defined, which may include authority over previously autonomous agencies.

RECOMMENDATION

We believe the third alternative, to establish a public assets management entity, to be the most reasonable, since it provides both flexibility and quality control. Our recommendation for how to establish this entity follows in the next chapter.

Chapter IV

The Recommended Strategy and Business Plan for the California Real Estate Development and Management Corporation

Chapter IV

The Recommended Strategy and Business Plan for the California Real Estate Development and Management Corporation

CHAPTER 4

THE RECOMMENDED STRATEGY AND BUSINESS PLAN FOR THE CALIFORNIA PUBLIC REAL ESTATE DEVELOPMENT AND MANAGEMENT CORPORATION (OBJECTIVE 5)

ORGANIZATION FRAMEWORK

We recommend that a new public entity be created by statute to undertake the State's real estate development and management activities. Such an entity could be a public corporation, board or commission, and would, while being publicly accountable, have much of the autonomy of a private entity. The rest of this report refers to this entity as a Public Corporation. This Public Corporation would work on behalf of and in conjunction with the various State agencies and commissions.

Statutory Creation of New Public Entity – Corporation/Board/Commission

Legislation will be required to create the Public Corporation. Precedent exists for such an entity at both the State level, such as the New York State Urban Development Corporation, and the local level, such as the Capital Area Development Corporation in Sacramento. These corporations have been created by statute for special purposes.

- Clear Organizational Mission. The enabling legislation should clearly state the organizational mission of the Public Corporation. This mission is to ensure that the real estate assets of the State of California are developed and managed in a manner that serves the overall public good, promotes efficiencies, and provides revenues where possible. The Public Corporation could accomplish this mission by both helping agencies manage their assets through the planning process and by managing specific projects.

Composition of Governing Board

We recommend that the Public Corporation be controlled by a Governing Board composed of the Director of DGS as Chairman, two representatives appointed by the Governor, and a representative appointed by each House of the State Legislature. This Governing Board would have the responsibility of setting the major policies of the Public Corporation and of sponsoring major public real estate projects.

Composition of Advisory Boards

Two advisory boards to the Public Corporation, whose members would be appointed by the Governing Board, would serve as forums for sharing ideas and information: a Real Estate Advisory Board and an Agency Real Estate Asset Advisory Board.

The Real Estate Advisory Board could be composed of private sector real estate experts. This group could assist the Public Corporation in focusing on the most promising targets of opportunity, analyzing the portfolio, and negotiating guidelines for specific projects.

The Agency Real Estate Asset Advisory Board could be composed of representatives of the major State agencies which control the State's real estate portfolio. These representatives should be knowledgeable about their agency's real estate asset programs, including asset management plans and planned development projects. This Board could serve as a forum for the agencies to exchange ideas, suggest policy, and otherwise share real estate management information.

Exhibit 1 at the end of this chapter contains a chart of the recommended organizational structure.

Office of Executive Director

The Public Corporation's Executive Director should be a political appointee who would oversee the day-to-day administration. The Executive Director should have the requisite real estate development and management expertise. Ideally, he or she should also have experience as a public sector entrepreneur.

The remaining staffing would depend upon the programmatic responsibilities given the entity. This study did not encompass staffing and operations planning; however, some of the activities suggested below which may require permanent staff members are presently being undertaken by DGS staff. Thus, staffing the entity may not require new personnel years. The Public Corporation's staff would need a knowledge of State real estate assets, agency space-use needs, the budgeting process, and fiscal efficiency. In particular, staff and consultants would have experience in public/private real estate development and real estate financing techniques.

Use of Private Sector Expertise

The entity's permanent staff would be augmented by the use of contract employees with specific private sector real estate and financing skills for specific projects. The Public Corporation should have financial resources to employ private sector consultants, and legal and financial advisors to help accomplish its mission. These advisors could be compensated in a variety of ways: hourly fees, lump sum upon completion of a project, or a percentage of revenues earned or funds raised.

SKILLS WITHIN THE PUBLIC CORPORATION

The Public Corporation, through its permanent staff and ongoing relationships with private sector consultants, should have a sophisticated set of real estate development and management skills. These skills could include the following:

Knowledge of State Real Estate Assets

The Public Corporation's staff should have a clear understanding of the magnitude and character of the State's real estate holdings through a land inventory and data base on all the real estate assets of its client agencies.

Knowledge of State Agency Space Use Needs, Budget Process, and Fiscal Efficiency

Through the annual planning and review function, the Public Corporation's staff would acquire an understanding of the agencies' present and future space needs and would be able to use this knowledge to promote efficiencies and to assist the agencies in accomplishing their objectives.

Public/Private Real Estate Development Expertise

The Public Corporation would be the primary Statewide repository for knowledge concerning public/private approaches to public real estate development and management. This expertise would extend to all aspects of the process, including land sales and ground leases, joint and mixed-use development, private construction techniques and private financing mechanisms for State projects.

Real Estate Financing Expertise

The Public Corporation's staff should be skilled in public finance techniques, in order to determine the most cost-effective ways of financing State projects. In particular, this expertise would include how to consolidate a series of smaller building programs under one financing, and how to use revenue produced from the sale or lease of State lands to finance particular State building projects.

INITIAL TASKS AND RESPONSIBILITIES OF PUBLIC CORPORATION

Responsibility Is for Real Estate Used for the Operation of State Agencies

The entity would not be concerned with programmatic real estate acquisition programs such as the Department of Parks and Recreation acquisition programs.

Rather, the Public Corporation's responsibilities would include supervising the surplus disposition and all the operations, maintenance and space leasing activities for all State agencies, (e.g., it will lease new office space for CalTrans use but not participate in CalTrans' airspace leasing program). We recommend that the entity begin with an initial set of management responsibilities which would be expanded at a later point to encompass the project development of all large scale public projects.

The initial responsibilities of the Public Corporation would include the following:

Resource for All State Agencies

The Public Corporation could assist agencies in space and land utilization, real estate development, and public/private approaches to asset management. The Public Corporation could begin to educate agencies on the benefits of consolidation, operating efficiencies, and using alternative financing mechanisms.

Coordination

The Public Corporation could perform a centralized coordinating function among agencies having real estate assets, the Treasury and Department of Finance (which finances those agencies), and the Legislature (which reviews those operations).

Negotiation Authority

The Public Corporation would focus on all large scale real estate asset transactions. This would include negotiating with the private sector, between agencies and with the local community.

Personnel within the Public Corporation should be knowledgeable of local government planning and zoning issues as successful repositioning requires local community consensus on the appropriate type and density of development. There are various mechanisms which can facilitate local cooperation, such as managing a project under a joint powers arrangement. The Public Corporation should take a leading role in involving local communities in the management process.

Centralized Computer Data Base and Land Inventory of All State of California Real Estate Assets

Pursuant to legislation, DGS and its consultants have established the parameters for a computerized geographic data base. DGS has also started an inventory of the State's real estate assets. This data base and inventory would become an integral part of the information the Public Corporation could use to manage the assets.

Reviewing Entity to Monitor Asset Management Plans of All State Agencies

As described in Chapter 5 below, it is recommended that all agencies make real estate asset management planning a part of their agency planning and budgetary process. The Public Corporation would play the crucial role of reviewing those plans and monitoring agency performance against plans.

Centralized Surplus Property Repositioning

The Public Corporation would work with agencies to identify and reposition surplus property. Repositioning may include disposition, ground leasing, or joint development.

Centralized Program to Create Revenue from Public Real Estate Assets

The Public Corporation could create revenue from public real estate assets on a Statewide basis. The Corporation would review leases, operating budgets, and other information to determine if savings can be accrued through consolidation, volume discount, and other management techniques.

LONG-TERM TASKS AND RESPONSIBILITIES OF THE PUBLIC CORPORATION

The tasks and responsibilities of the Public Corporation could be increased over the long-term after successful implementation of the above tasks. These additional responsibilities could include:

Centralized Program to Develop All Large Scale Public Projects

Over the long term, we recommend that the Public Corporation supervise the development of large-scale State public facility projects. The Public Corporation's expertise on land use and real estate efficiency will naturally extend to the building of structures on that land.

The OPDM presently undertakes in excess of $500 million of public projects per year. It is recommended that this function be transferred to the Public Corporation and that, to the extent practical, key personnel might also be transferred. The Public Corporation would thus have the expertise to oversee large-scale projects and could incorporate revenue production techniques (such as private commercial uses in parking garages) into these projects.

The autonomy of the Public Corporation and use of private sector consultants should allow it to complete projects in a more timely and efficient manner. Moreover, the entity could explore the possible use of turnkey construction, all-in engineering, and design-and-build programs for further cost savings.

Clearing House for All Financing of California Public Capital Project Developments

The Public Corporation could act as a clearinghouse for all capital project financing. The same skills needed to finance development projects can be applied to finance multiple capital projects. For example, the Public Corporation could explore the use of pooled-money accounts to more efficiently finance the construction and long-term funding of multiple small projects. The Public Corporation would retain a financial advisor (to be paid out of financing proceeds) to help design overall financing strategy.

STEP-BY-STEP IMPLEMENTATION STRATEGY

Initial Focus on Targets of Opportunity

The initial focus of the Public Corporation would be on selected targets of opportunity, such as the three case-study properties. The Corporation should have tangible goals and be accountable to the Board for meeting those goals.

Implementation Plan

We recommend that the implementation of the program include the following steps:

1. Create the Public Corporation by statute.

2. Establish a staffing and operations plan and engage sufficient staff and consultants capable of undertaking the tasks and responsibilities described above.

3. Establish quantitative and qualitative goals for the first three years of operations.

4. Focus the first years of operations on three key areas:

   - Undertake a small number of public projects which include revenue production.

   - Oversee public capital projects and include revenue production and efficiency techniques in project construction and financing.

   - Focus on the asset management plans of the key agencies which control the most valuable State real estate assets.

5. Review the Public Corporation's performance against its goals at the end of two years. Review can be by the Department of Finance and DGS.

6. Publicize the savings and efficiencies which are gained to the agencies, the Department of Finance, the State Legislature and the public.

STAFFING/USE OF PRIVATE SECTOR EXPERTISE

It is recommended that the Public Corporation have a permanent staff expert in the tasks and responsibilities described above. This staff would include key senior administrators recruited from the State, the private sector and other public entities. The Public Corporation could also use contract employees with specific real estate skills for specific projects. In addition, the Public Corporation should have a revolving fund available to employ consultants, lawyers, and financial experts on an as-needed basis.

One of the Executive Director's first tasks would be to prepare a staffing plan which would include a time frame for staff transfers and a budget. The Public Corporation could contract out services to consultants or in-house real estate personnel as appropriate. The amount of services contracted out will directly affect the number of personnel years required to staff the program.

During the initial planning phase, the Executive Director and Governing Board might also explore other organizational issues such as placement of the entity within the Governor's office, or placement outside of the office of the Secretary of State and Consumer Services as an independent quasi-public entity.

TIME-FRAME FOR IMPLEMENTATION

We estimate that the drafting of appropriate legislation will take eight to twelve months and that the Executive Director of the Public Corporation will require approximately six months to establish his staff and consulting arrangements. Thereafter, we estimate that the gain from the focus on "targets of opportunity" will take approximately two or three years to realize.

Prototypical Projects Already Identified

Undertaking the projects identified in this study would allow the Public Corporation to "hit the ground running." Moreover, the State practices proactive management techniques in isolated cases. The Public Corporation's staff can study these examples, such as the Los Angeles Civic Center building, the Sacramento Franchise Tax Board building, and the airspace leasing program within CalTrans, and apply the techniques to other properties.

START-UP COSTS/ONGOING FUNDING

The scope of work for this project does not include preparation of a budget or detailed financial plan for the recommended Public Corporation. It is recommended that a budget and corresponding financial plan be prepared, which should include the following concepts.

Fee-Based Budget

The budget of the Public Corporation should be based on both operating fees from agencies and transaction fees from various public development and management projects. The operating fees would be used to maintain information resources. Transaction fees would cover the rest of the Public Corporation's overhead and should be paid out of transaction proceeds when the transaction is completed.

No General Fund Subsidy Required After Start-up Period

The goal is for the Public Corporation to become entirely self-funded from transactions and operating fees after the start-up period. If the Public Corporation does not successfully service the agencies, agency heads will not use it and its funding will cease.

Minimal Additional Personnel Years Required

To the extent practical, the staffing plan should be designed to make maximum use of outside consultants on a project-by-project basis. In addition, key senior real estate executives presently on the State payroll could be transferred to the Public Corporation. The plan should be designed to require a minimum number of new personnel years.

Two-Staged Funding

Funding would be in two stages. The first stage would require a start-up funding appropriation from the Legislature. Start-up funds would be used for hiring the Director and staff, and setting up systems and procedures. All future funding would be based on transaction fees earned, payable from transaction proceeds after the transaction has closed, and annual operating fees.

Experience indicates that the most efficient real estate entities are those whose existence depends on their success in developing and managing real estate. Thus, our implementation plan and funding suggestions include a two-year assessment of performance against objectives. This two-year review is in addition to the annual budget review.

Interim Suggested Funding of Incentive Programs/Real Estate Skills/Revenue Analysis

This study has identified some additional issues to be researched to assist in successful program implementation. The most important issue is how to structure an appropriate incentive program to encourage agency participation. Incentives would include both individual rewards and agency rewards. None of the states interviewed had an incentive program for proactive management, thus this research most likely would allow California to set the standard.

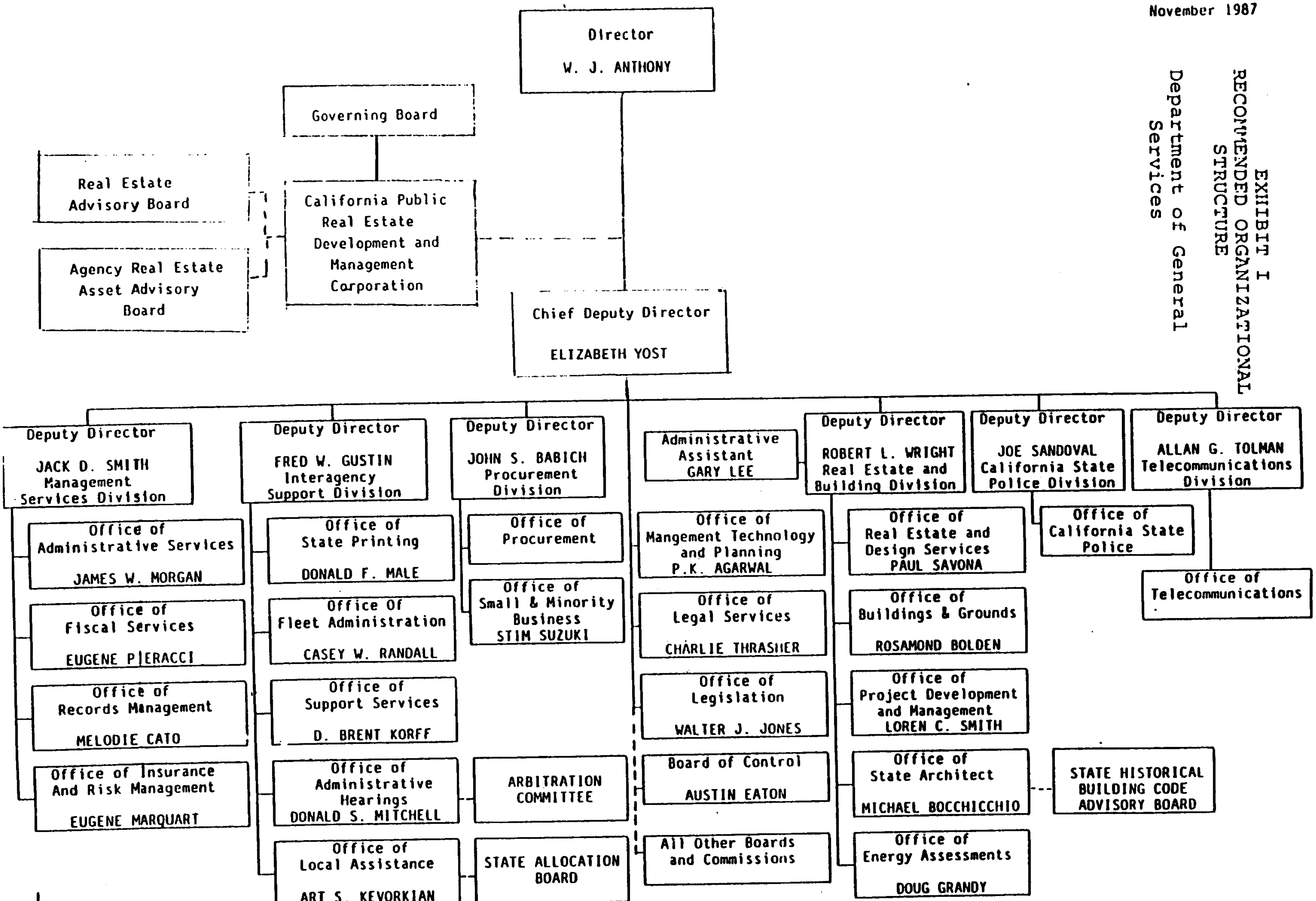
A second issue concerns staffing the Public Corporation. Both DGS and the agencies believe certain real estate expertise exists within DGS as well as within some agencies. A thorough assessment of the real estate skills currently available within the State, and what would be required by the Public Corporation, would assist in formulating the staffing plan.

A third issue regards a better determination of potential revenues/cost savings. A detailed analysis of gains from efficiencies in construction, financing, and leasing practices would give a more empirically-based estimate of total gains for the State.

November 1987

EXHIBIT I
RECOMMENDED ORGANIZATIONAL STRUCTURE

Department of General Services



Chapter V

Overcoming Bureaucratic Resistance

Chapter V

Overcoming Bureaucratic Resistance

CHAPTER 5

OVERCOMING BUREAUCRATIC RESISTANCE

ANALYSIS OF THE SOURCE AND NATURE OF RESISTANCE TO PROPOSED PUBLIC CORPORATION

The State's real estate assets are controlled by agencies whose mission is the delivery of various public services such as education, transportation or recreation. The budgets for these agencies include yearly operational costs and capital expenditures, but do not consider the "costs" of underutilization or misuse of land and built space.

This budget structure results in a natural tendency to misuse real estate assets. The organizational mission of each agency is not to consider real estate assets, therefore, few or no incentives exist to use them efficiently.

Tension Between Centralized Responsibilities in Public Corporation and Individual Agency's Ownership, Use and Management of Agency Real Estate Assets

The recommended Public Corporation will have the centralized responsibility for efficient real estate asset management but the various agencies, to fulfill their public service missions, will have to maintain control over their physical plant and facilities. This results in a natural tension between the Public Corporation and the agencies.

If the Public Corporation is to reposition underutilized land, facilitate the planning of space usage, expedite the design and construction of State facilities, and incorporate revenue production techniques into all processes, a strategy must be developed which can effectively overcome this inherent resistance.

STRATEGY FOR IMPLEMENTING CHANGE AND OVERCOMING POTENTIAL BUREAUCRATIC RESISTANCE

The strategy we recommend has four major components which, if implemented together, should allow the Public Corporation to succeed in the tasks. These four components are:

Asset Management Planning — Reports and Their Review

The analysis of the three case study properties showed they were substantially underutilized. For example, in one case, the land was used for surface parking in a high value urban area. Agencies often underutilize sites in anticipation of a future need that might arise. The key, then, is to plan present and future agency land use in such a way as to maximize the current real estate value of the assets.

Effective planning can only be accomplished by the agency that knows its organizational land and space use needs. The study revealed a lack of coordinated real estate planning with no linkage to the agency's budget planning process. We recommend that there be required by statute:

- Annual Agency Asset Management Plans. These real estate asset management plans would be prepared by the agencies according to guidelines created by the Public Corporation. The plans would analyze present and future needs and specifically note, on a site basis, potential surplus land, underutilized sites, and obsolete facilities that could be relocated. The plans for such sites should include time frames for use by the agency or time frames to put the sites into surplus disposition or long term ground lease.

- Individual Project Revenue Plans. In addition, for every major real estate capital project, there should be an efficiency management plan which will include suggested revenue enhancement measures.

Budget Review

It is imperative for the success of the program to have realistic asset planning and accurate reporting of surplus on underutilized real estate. To assure compliance with these requirements, there should be sanctions against recalcitrant agencies. The sanctions suggested are:

- Audits of Agency Asset Management Plans and Reports of Surplus or Underutilized Assets. The Public Corporation could selectively review the real estate asset management plans and conduct an audit type review of agency plans for agencies which appear to have opportunities but are not recording them through their planning process. The Public Corporation audits would be sent to both the agency and to the Department of Finance, which would use the audits in its examination of the agency's annual budget request.

- "Use it or Lose it" Sanctions. Coupled with the review will be a program of designated "use it or lose it" sites. These sites would be transferred from the agency to the Public Corporation if they do not become efficiently managed within a certain time-frame.

Incentives

The agencies should also have incentives to put their real estate assets to beneficial efficient use. The Public Corporation would be charged with helping to administer two types of incentives:

- Agency Participation in the Reward of Efficient Asset Management Without Reduction in General Fund Allocation. The agency that efficiently uses its real estate should be entitled to share in the revenue created. Due to the difficulty of evaluating projects on a case-by-case basis, the Public Corporation should account for all revenue generated and allocate a portion of these sums back to the sponsoring agencies on an annual basis. Agency administrators should have discretionary use of the funds. The funds should not be subject to recapture by the Department of Finance through a corresponding reduction of annual budget. The administration of this reward system by the Public Corporation would be subject to the direction and guidance of the Department of Finance on an ongoing basis.

- Personnel Merit Awards. The State of California presently has a personnel efficiency merit awards program. The Department of Personnel Administration program of awards for efficient State government (which is presently limited to awards based on efficiency during the first year of operation) should be expanded. This program should include rewards for real estate efficiencies which often do not show a return until well after the first year of implementation. The maximum award of $3,000 should be increased to $10,000 and the program should be jointly administered by the Public Corporation and the Department of Personnel Administration.

Service Delivery

Perhaps the most effective mechanism to overcome resistance to the Public Corporation will be the initial success of the entity in carrying out its mandate. An entity which earns a reputation as a skillful resource which can create revenue and facilities for the various agencies will quickly convert unenthusiastic agency leaders.

- Responsive Support for Agencies Will Reduce Resistance. The questionnaire survey clearly showed a perceived lack of responsiveness from DGS on real estate matters, particularly on leasing administration. To the extent that the new entity will be able to respond rapidly to agency needs for new space creation or leasing, it will create its own support and constituency.

- Publicity of Success Will Generate Interest in Other Agencies. The implementation strategy described in Chapter Four stresses an initial focus on a small number of "targets of opportunity." The entity's initial successes can then be publicized to other agencies who will, in turn, see the advantages in terms of additional revenues and better facilities.

ADDITIONAL RESEARCH INTO BUDGET PRICING SYSTEMS TO ACCOUNT FOR AND PRICE REAL ESTATE (LAND AND SPACE USAGE) COSTS

Finally, we recommend that the State consider undertaking further research into pricing the real costs and opportunities presented by the State's real estate assets. Other large entities have devised real estate overhead pricing systems and lost opportunities charge systems, which became part of the profit and loss decision-making process. For example, even a limited market pricing of space and vacant land could create incentives for efficient use of those assets.

Chapter VI

Legal Analysis

Chapter VI

Legal Analysis

CHAPTER 6

LEGAL ANALYSIS

NEED FOR LEGISLATIVE MANDATE

This report presents a fundamental change in real estate management for the State. Accordingly, the new entity will have to be created by statute. Like other special purpose public entities (e.g., the Capital Area Development Corporation), it will require the Legislature to define its responsibilities. A particular area to address will be the entity's relationship with regard to State agencies whose real estate assets are constitutionally separate (such as the University of California) or owned in conjunction with other governmental entities (such as CalTrans Highway Trust Fund projects with the Federal Government).

State of California Policy to Produce Revenues from State of California Real Property Assets

We recommend that, in addition to defining the responsibilities of the entity, the statute contain a clear statement of the State's policy toward the husbanding of the State's real estate assets. We recommend that the State's policy include the goals of efficient delivery of services and protection of the citizens' financial interest through efficient use, revenue production, and creation of efficient facilities. The most obvious limitations on revenue production, such as statutory approval of long-term ground leases, land exchanges or land sales, will need to be examined. We recommend a broad-based mandate for 99-year ground lease dispositions of State land by the Public Corporation.

LIMITS ON PUBLIC ENTITY'S ABILITY TO CONTRACT OUTSIDE OF THE ENTITY FOR SPECIFIC REAL ESTATE SKILLS

Additional legal research will assist in determining the degree to which the Public Corporation can contract out for specific real estate skills. It may be that many of the skill sets concerning real estate analysis, ground lease negotiations, public/private joint ventures, and financing techniques will not be present within the ranks of State employees. Moreover, we are suggesting a project-specific budget for the entity. Accordingly, the ability to contract out for both individuals and for legal, engineering, architectural, and consulting firms will be crucial.

NEED FOR PUBLIC CORPORATION TO REVIEW MYRIAD LEGAL BARRIERS WITHIN EXISTING STATUTORY FRAMEWORK

Once it is functioning, the Public Corporation will have to analyze the myriad legal barriers to efficient real estate asset management. These barriers are due to the various agencies' statutory frameworks. The analysis should present suggested changes to those statutes to make efficient real estate asset management more feasible.

We believe that the redrafting of the statutory systems to correctly incorporate the efficient use/revenue production mandate will be a substantial undertaking. The analysis should cover various situations where the new policy for effective use will be at variance with other public policies, such as first notice to various public bodies or procedures designed to eliminate the possibility of impropriety.

Our research showed that in order to function effectively, the entity must have the authority to negotiate and to finalize agreements which are not subject to revocation by individual legislators. Accordingly, we recommend that the legislative review occur early in the management process before significant resources have been expanded. The present requirements of legislative notice at a later point in the process should be reviewed.

Elimination of Giveaway/Priority Sale Rules

Various statutory mechanisms exist which are designed to give other arms of government priority rights to State real estate assets. In light of the State's need to produce revenue and to be free to enter into public/private joint ventures, these various mechanisms will need to be categorized and reexamined.

LEGAL POLICY AREAS REQUIRING REVIEW

Finally, as the new entity begins to function it will uncover other statutory mechanisms which may need to be reexamined. These mechanisms may include energy savings, toxic waste elimination, or asbestos abatement. The solutions to these and other real-estate-based problems will need to be incorporated in an overall efficient real estate asset management program.

Chapter VII

Public Policy Implications

Chapter VII

Public Policy Implications

CHAPTER 7

PUBLIC POLICY IMPLICATIONS

MANDATE FOR PUBLIC POLICY TO MANAGE REAL ESTATE ASSETS AND CREATE EFFICIENCIES AND REVENUE

The administrators who are charged with managing the real estate assets owned by the people of the State of California must consider a large number of conflicting public policy mandates. These constitutional and legislative mandates include the provision of various services such as education or transportation, and the protection of various public resources such as state parks or air or water quality. Nowhere, however, does the constitution or legislation presently mandate these administrators to specifically manage those real estate assets to create efficiency and revenue.

It is recommended that the statutory framework for the Public Corporation include a clear mandate to efficiently manage the State's real estate assets through both efficient use and revenue production.

PROTECTION OF PUBLIC TRUST WHILE CARRYING OUT MANDATE

The present statutory checks and balances on State real estate use are designed to protect the public trust against administrative actions which might waste the assets, create expenditures not authorized by the Legislature, or allow projects which have not received adequate public scrutiny. In addition, there is an overriding check on possible corruption. All these checks are designed to monitor decentralized decision making not subject to centralized review by the Governor and Legislature.

The recommended entity will be subject to centralized review. Its program will be designed to eliminate the waste of assets not only through unchecked administrative disposal but also through misuse or lack of use. In addition, there will be a check on major projects and a focus for review at the program and project level at an early point in project design and formulation.

The Public Corporation should be charged under its mandate to maximize cost effectiveness while protecting the public trust. This will ensure public service delivery and prevent fraud and abuse.

SUMMARY ANALYSIS OF POSSIBLE ADVANTAGES AND DISADVANTAGES OF PROPOSED CALIFORNIA PUBLIC REAL ESTATE DEVELOPMENT AND MANAGEMENT CORPORATION

We have recommended the creation of a California Public Real Estate Development and Management Corporation because we believe the possible advantages outweigh the possible disadvantages of the proposed structure. The possible advantages of creating the Public Corporation can be summarized as follows:

- A single entity will be responsible to oversee the efficiencies and revenue mandate, subject to political review.
- The State can coordinate its space needs, land utilization, financing and legal review across agencies.
- The structure will encourage the use of private sector management techniques to increase efficiencies and revenue production.
- Agencies will be encouraged through both incentives and sanctions to use real estate assets more effectively.
- The structure will allow proactive management with minimal addition of personnel years.

If the entity can accomplish even modest efficiencies with the massive real estate holdings of the State, significant revenue could be produced to assist in providing services to the people of the State of California.

The creation of such an entity may have possible disadvantages. These disadvantages can be summarized as follows:

- A major reorganization of the functions of State government is an extremely time consuming and laborious process with very real costs.
- Transition from one system to another can increase costs and create lost opportunities.
- Granting the statutory authority of long-term leases and land exchanges to the entity will result in some transactions that may not be optimum, just as the current system occasionally makes land use decisions that are not optimum.

OVERALL INCREASE IN PUBLIC SERVICE

The Public Corporation we recommend here, if carefully designed and supported by both the executive and legislative branches of government, should be able to generate revenues and cost savings from effective real estate management while ensuring the delivery of public service. More efficient land and space utilization, which is financed cost effectively, will allow a higher level of public service to be delivered to the people of the State of California with less cost.

Appendices

Appendices

Appendix A

Advisory Committee Members
Survey Interviewees

Appendix A

Advisory Committee Members
Survey Interviewees

APPENDIX A

ADVISORY COMMITTEE
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APPENDIX A

PERSONS INTERVIEWED BY DH&S FOR STATE DEMONSTRATION PROJECT

Person/Title/Department

Michael Koester, Chief,
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Department of Development Services

Robert Lynch, Supervising Land Agent,
State Lands Commission

Kenneth Mitchell, Chief,
Acquisition Division,
Department of Parks and Recreation

Warner James, Staff Services Manager I,
Fran Thorley, Staff Services Analyst,
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Judith McGillivray,
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Appendix B

Bibliography

Appendix B

Bibliography

APPENDIX B

CONTENTS

Page

EXECUTIVE SUMMARY

The California Department of General Services has contracted with the Roulac Real Estate Consulting Group of Deloitte Haskins + Sells to undertake a demonstration project of applying portfolio management techniques to the State's real estate holdings. The first of the major tasks ("Objectives") entails an identification of the information sources requisite to an effective property management system. Later in the project these information sources will be matched with a set of decision rules to identify the most promising, credible opportunities for the State to proactively manage its real estate assets.

This document is a bibliography of the most important data sources. The characteristics of these sources are summarized in Exhibit 1. The next section of this bibliography describes the methodology implied in identifying, evaluating, and summarizing data sources. The final section devotes one page to each data source, to provide more detailed information on each data base's variables, geographic coverage, frequency of updates, and so on.

Any questions or comments concerning this bibliography may be directed to Mr. Neal Roberts (714/641-5500) or Mr. Gilbert Castle (415/433-0300).

EXHIBIT 1
PRINCIPAL COMPUTERIZED INFORMATION SOURCES

DATA BASE	TYPE	TYPICAL VARIABLES	OVERALL USEFULNESS
DAMAR C&I	MARKET TRANSACTION	TRANSACTIONS LOCATIONS BUILDING CHARACTERISTICS LAND CHARACTERISTICS INCOME AND EXPENSE DATA SALE PRICE	AVERAGE
COMPS, INC.	MARKET TRANSACTION	TRANSACTIONS LOCATIONS BUILDING CHARACTERISTICS LAND CHARACTERISTICS INCOME AND EXPENSE DATA SALE PRICE	ABOVE AVERAGE
SPACE INVENTORY SYSTEM	STATE PROPERTY	LOCATION TYPE OF LEASED SPACE LEASE PROVISIONS OCCUPYING AGENCY	AVERAGE
PROPRIETARY LANDS INDEX	STATE PROPERTY	LOCATION LAND USE SIZE OF PARCEL	BELOW AVERAGE
CAL TRANS	STATE PROPERTY	LOCATION PARCEL ZONING BUILDING CHARACTERISTICS PARCEL CHARACTERISTICS	ABOVE AVERAGE
STATEWIDE PROPERTY INVENTORY	STATE PROPERTY	LOCATION USE AND INTENDED USE BUILDING CHARACTERISTICS PARCEL CHARACTERISTICS PARCEL ZONING LEASE PROVISIONS OCCUPYING AGENCY	ABOVE AVERAGE
CLARITAS, CACI, AND SIMILAR COMMERCIAL SOURCES	DEMAND	POPULATION NUMBER OF HOUSEHOLDS PER CAPITA INCOME BUSINESS ESTABLISHMENTS AVERAGE HOUSING RENTS WHITE COLLAR EMPLOYMENT	ABOVE AVERAGE

SOURCE THE ROULAC REAL ESTATE CONSULTING GROUP OF DELOITTE HASKINS + SELLS.

METHODOLOGY

The Role of Data Bases In A Management System

Ideally, a portfolio management system would work in a fashion similar to the following sketch:

- First, all the properties in a portfolio would be reviewed using a series of prearranged screens and filters. Sifting through the list identifies candidate properties ideal for more intensive management efforts.

- Once these properties are selected, the local economy and demand related growth characteristics in a given property's market area are reviewed. Should the economic traits meet established levels then the property is again tagged for further consideration. If not it is "returned" to the original list until later when the economic environment may yield better results from proactive management.

- In the final operation, data on recent real estate sales and lease rates in the market area are identified, researched, and analyzed. This step identifies whether action is efficient at the present time and also identifies the potential benefits (or lack of) of selling/leasing/holding. With all this information in hand a portfolio manager can set about making rational and informed decisions about the efficient use of real estate.

This scenario, illustrates the reliance of a proposed statewide real estate management system on information. The very nature of a portfolio management task requires knowing what constitutes the portfolio. In addition, with over 10,000 properties in its portfolio and as many submarkets to consider, the State of California cannot undertake a process described above effectively using only hardcopy data copy. In order to sucessfully implement a statewide real estate management process the first step requires the identification of the necessary information bases, most of which are computerized.

The Data Base Selection Process

The data base identification and selection process began by posing two questions about the proposed statewide real estate management sysytem: "What is to be managed?" "How will the State go about managing the properties once they are identified?" The reasoning was that the answers to both of the questions not only tell how a real estate management system might work but also what data and information is necessary.

The answer to the first question is simple - all the real estate owned or leased by the State should be subject to efficient property management. At the present time a partial inventory of real estate is available in several different, unlinked data bases. Recent legislation requires that the State complete the inventorying task. In an effort to accomplish the mandate the State has engaged Arthur Young & Company to design and assist in implementing the necessary proceedures to make available a complete inventory by January of 1989. At the moment the State inventory is fragmented and incomplete. The following is a list of the current data bases maintained by various State agencies or departments. Some or all of the information stored within these will likely become part of the new Statewide Real Property Inventory (SRPI):

- Space Inventory System (SIS)
- Proprietary Land Index (PLI)
- Space Assignment System
- Cal Trans
- Developmental Services
- Parks and Recreation
- State lands Commission
- University of California
- Fish & Game

Of the nine listed above, only three (SIS, PLI, and Cal Trans) were identified as relevant enough to be selected for detailed review. Relevance was generally based on how comprehensively the source covered State properties and the number of potential variables in each. In general, the Cal Trans data base was viewed as the best.

The answer to the second question does not directly assist in identifying the data needs of a real estate management system. However, if one thinks of how the operation is approached then the needs become clearer. Once a property is identified, information (a "profile") of the market is needed. This tells whether the market is strong or not. In a weak market, sales prices will be down. A prudent manager would hold a property until the market strenghtens. Additionally, transaction prices, lease rates, financing terms and real estate performance measures should be available in order to evaluate if any change in ownership or management is necessary and/or efficient.

In summary, information is needed on the factors determining demand in a given market area, the competitive projects/parcels, where they are located, recent market terms (sales prices, rents, and financing), and future prospects for a given market area.

Following the initial identification, each of the data bases were evaluated on a number of key areas including reliability, availability, cost, and currency. The profiles of each data base which are included later in this report show the evaluation of individual sources for each key feature.

What the Profiles Include

The following pages provide a profile on each of the data bases identified as potentially useful for the computerized aspects of the proposed real estate management system. The intent is to summarize the salient aspects, features and variables that each source can contribute to the overall process. Each profile is divided into four sections.

The first identifies one of four general categories of data bases in which the individual data base fits. The type is based on the major function the data source could serve in a real estate management environment. The four types are described below:

* "Supply" data bases contain information on current and historic development trends such as where construction is taking place and how intensive the activities are.

* "Demand" data bases hold data on the factors which determine the demand or use of the various types of real estate. Typically these sources have information on growth trends and profiles of economic activity in a given area.

* "Competition" data bases contain information on market transactions such as recent real estate sales trends. These data bases could be useful in identifying the current market price for a given type of real eatate and what market areas are particularly active.

* The final category are the "State property" data bases. These sources contain information on the various types of real estate owned or leased by California.

The second section is a short description of the data base, the company or state entity which is responsible for servicing the data base, and the general uses.

The third section three is an evaluation of the key attributes of each data base. These attributes represent the most important use issues of an informantion source.

a. Year Started:	The approximate year when the data base became available in a mode useful to the State.

b. Access:	Whether or not the system in automated (computerized) or hard copy.
c. Geographic Coverage:	The areas covered, whether it be the State or only specific areas.
d. State Property Coverage:	Applies only to the three data bases containing information on the state owned or leased properties i.e., SIS, DLI, and Cal Trans. Tells to what extent the source covers all state real estate.
e. Frequency of Updates:	Identifies how often the data base is revised with new or improved information. Evaluation comments will usually be monthly, quarterly, annually, or interactively.
f. New Entries Per Update:	The number of additions or corrections made to the data base at each update.
g. Reliability of the Data:	Two basic questions were asked of the data in each data base. a) Has the information changed in format and in quality over the life of the data base? b) Is the data comprehensive for the subject area of the data base or are important variables missing? The answer to these two questions produces one of three possible ratings - high, moderate, or low. If the questions cannot be answered then undetermined is used.
h. Ease of Use:	Identifies the degree of difficulty a typical person would have when using the subject data base. Possible ratings are simple, moderate, or difficult.If ease of use could not be determined given the resources available then the evaluation was shown as undetermined.

i. Confidence in the Data Base: A general measure of how well the data base will serve the purposes of the State in its proposed real estate management plan. The evaluation is based on how well the data base has and will stand the test of time in an arrangement useful to the State.Possible ratings were high, moderate, and low. If the evaluation could not be determined then the response undetermined was used.

j. Availability of the Data base: Identifies the amount of time necessary for the State to acquire the data base or access to it. The evaluation is specified as immediate or in the months until access is available.

k. Cost: Specifies in general terms the cost to the State in purchasing the data base or time sharing access. The possible ratings include low, moderate, high or undetermined.

The final section of the profile is a preliminary list of the variables available from the source. This list in notnecessarily exhaustive, butdoes identify the broad categories of data available to the prospective real estate manager.

DAMAR C & I ON LINE

1. **Type: A Competition Data Base**

2. **Profile:** The Damar C & I database is a county by county collection of property transactions, typically sales or transfers of ownership. Entries in this data base are primarily commercial or industrial property types falling into one of 145 land use categories established by Damar. Almost all the original data are from the individual county recorders office records. Information from this source can be used to identify land and building sale prices or values based on recent comparable land and building sales. The data can also identify active market areas and trends in prices and values.

3. **Major Features:**

Attribute	Evaluation
a. Year Started	1982
b. Access	On line
c. Geographic Coverage	All 58 California Counties
d. Frequency of Updates	Monthly
e. New Entries Per Update	Several Thousand
f. Reliability of Data	Moderate
g. Ease of Use	Moderate
h. Confidence	Moderate
i. Availability	Immediate
j. Cost	Moderate

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Location	Address, City, County
b. Zoning	Label
c. Land Use Designation	One of 145 Damar Codes
d. Type of Improvements	Label
e. Description of Improvements	Label
f. Size of Improvements	Square Feet
g. Size of Parcel	Square Feet
h. Income & Expense Data	Dollars Per Square Foot
i. Transaction Date	Date
j. Sale Price	Dollars Per Square Foot
k. Performance Indicators (cap rate)	Percent

COMPS, INC

1. **Type:** A Competition Data Base

2. **Profile:** The COMPS, Inc. data base is collection of vacant land and improved real estate transactions. Typically the transaction is a sale or transfer of ownership. Entries in this data base include vacant residential land, vacant commercial land, office buildings, retail buildings, and industrial buildings. All the data are from individual county recorders offices. Information from this source can be used to identify land and buliding sale prices or values based on recent comparable land and building sales. The data can also identify active market areas and trends in prices and values.

3. **Major Features:**

Attribute	Evaluation
a. Year Started	1981
b. Access	Hard Copy
c. Geographic Coverage	7 Counties in California
d. Frequency of Updates	Monthly
e. New Entries Per Update	Several Hundred
f. Reliability of Data	Moderate
g. Ease of Use	Simple
h. Confidence	Moderate
i. Availability	Immediate
j. Cost	Low to Moderate

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Location	Address, City, County
b. Zoning	Label
c. Land Use Designation	Label
d. Type of Improvements	Label
e. Description of Improvements	Label
f. Size of Improvements	Square Feet
g. Size of Parcel	Square Feet
h. Income & Expense Data	Dollars Per Square Foot
i. Transaction Date	Date
j. Sale Price	Dollars Per Square Foot
k. Performance Indicators (cap rate)	Percent

SPACE INVENTORY SYSTEM

1. **Type:** A State Property Data Base

2. **Profile:** The Space Inventory System (SIS) provides a listing of all state occupied space managed by the Office of Real Estate and Design Services. This data base is used primarily for storing historical data on leases entered into by state agencies. Its major weakness is that it is not comprehensive in coverage and does not include certain variables required in a proactive real estate management environment.

3. **Major Features:**

Attribute	Evaluation
a. Year Started	Undetermined
b. Access	On Line
c. Geographic Coverage	Statewide
d. State Property Coverage	Limited
e. Frequency of Updates	Monthly
f. New Entries Per Update	Few Hundred
g. Reliability of Data	Moderate
h. Ease of Use	Undetermined
i. Confidence	Low
j. Availability	Immediate
k. Cost	Undetermined

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Location	Address, City, County
b. Space Type	Label
c. Size of Leased Area	Square Feet
d. Annaul Lease Rate	Dollars Per Square Foot
e. Lease Provisions	Label
f. Occupying Agency	Label
g. Staff Size	Number
h. Staff Projection	Number

PROPRIETARY LAND INDEX

1. **Type: A State Property Data Base**

2. **Profile: The Proprietary Land Index (PLI) is a data base of all state held lands except highways, soverign lands, and tax deeded lands. Its current purpose is to provide an historical record related to the original transaction. Its major weakness is that it is not comprehensive in coverage and does not include centain variables required in a proactive real estate management environment.**

3. **Major Features:**

Attribute	Evaluation
a. Year Started	Undetermined
b. Access	On Line
c. Geographic Coverage	Statewide
d. State Property Coverage	Limited
e. Frequency of Updates	Monthly
f. New Entries Per Update	Several Hundred
g. Reliability of Data	Moderate
h. Ease of Use	Undetermined
i. Confidence	Low
j. Availability	Immediate
k. Cost	Undetermined

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Location	Address, City, County
b. Land Use or Purpose	Label
c. Size of Parcel	Acres
d. Some Physical Characteristics	Labels

CAL TRANS

1. **Type:** A State Property Data Base

2. **Profile:** The data base maintained by Cal Trans contains information on all the real estate within the Department of Transportation's jurisdiction. It includes data on all state highways, office buildings, and maintenance facilities operated by Cal Trans. This data base may provide all the data necessary to actively manage the Cal Trans portfolio. It does not provide information on land or improved real estate under the control of other state agencies.

3. **Major Features:**

Attribute	Evaluation
a. Year Started	Undetermined
b. Access	On Line
c. Geographic Coverage	Statewide
d. State Property Coverage	Limited
e. Frequency of Updates	Monthly
f. New Entries Per Update	Undetermined
g. Reliability of Data	High
h. Ease of Use	Undetermined
i. Confidence	High
j. Availability	Immediate
k. Cost	Undetermined

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Location	Address, City, County
b. Zoning	Label
c. Facility Type	Cal Trans Code
d. Facility Size	Square Feet
e. Site Size	Acres
f. Property Description	Labels
g. Type of Rights Held	Label
h. Number of Employees	Number

STATEWIDE REAL PROPERTY INVENTORY

1. **Type:** A State Property Data Base

2. **Profile:** The Statewide Real Property Inventory (SRPI) is a data base presently in the design and implementation phases. As required by legislative mandate, Claifornia must have a complete inventory of its real estate holdings by January 1989. This data base will accomplish this mission. In addition, it will provide some of the information necessary to effectively manage the state's real estate portfolio.

3. **Major Features:**

Attribute	Evaluation
a. Year Started	1988 or 1989
b. Access	On Line
c. Geographic Coverage	Statewide
d. State Property Coverage	Effectively All
e. Frequency of Updates	Monthly or interactive
f. New Entries Per Update	Thousands
g. Reliability of Data	High
h. Ease of Use	Undetermined
i. Confidence	High
j. Availability	At Least twelve months
k. Cost	Undetermined

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Location	Address, City, County
b. Use or Intended Use	Label
c. Type of Facility	Label
d. Size of Facility	Square Feet
e. Size of Site	Acres
f. Property Description	Labels
g. Type of Rights Held	Label
h. Lease Characteristics	Label and Number
i. Use Agency	Label

COUNTY ASSESSOR/RECORDER

1. **Type: A Supply Data Base**

2. **Profile:** Each county maintains both a tax assessor and recorder's office list of all real estate within the county boundaries. The purpose of the first is to identify real property tax sources and to accurately record whether taxes were paid or not. The second list identifies the current owner of a real estate and improvements. This list also identifies how title is held and other details about the most recent change of ownership. The structure and content of each county's data bases varies somewhat. Accordingly, some county provided data may be better than others.

3. **Major Features:**

Attribute	Evaluation
a. Year Started	Varies
b. Access	Hard Copy/On line
c. Geographic Coverage	County, City and Market
d. Frequency of Updates	Varies
g. Reliability of Data	High
h. Ease of Use	Simple to Difficult
i. Confidence	High
j. Availability	Immediate to Longer
k. Cost	Undetermined

4. **Variables Available from the Data Base**

Variable name	Format (units)
a. Property Location	Label
b. Current Ownership	Label
c. Previous Ownership	Label
d. Location of Recent Transactions	Label
e. Assessed Value	Dollars
f. Sales Price	Dollars
g. Permit Activity	Dollars
h. Location of Permit Activity	Label

CLARITAS, CACI, AND SIMILAR COMMERCIAL SOURCES

1. **Type:** A Demand Data Base

2. **Profile:** Several dozen vendors provide census-type variables on the characteristics of the population, housing stock, and economy of the United states. Most provide not only historic data but also current year andeven forecastdata. The information is available at the census tract, zip code zone, county, and state levels. The finformation is typically available in hard copy, via time sharing services (e.g., CompuServe, Dialog) on lmagnetic type and optical disk. Claritas and CACI are the two sources predominatntly used by the Roulac Real Estate Consulting Group of Deloitte Haskins + Sells. Other leading vendors include Dun & Bradstreet, Urban Decision Systems, National Planning Data Systems, and the like.

3. **Major Features:**

Attribute	Evaluation
a. Year started	Varies; typically 1960-1970s
b. Access	On line or purchase
c. Geographic ceverage	Statewide
d. Frequency of updates	Annually
e. New Entries Per update	Several hundred
f. Reliability of data	High
g. Ease of use	Varies
h. Confidence	Varies; typically moderate
i. Availability	Immediate
j. Cost	Moderate to high

4. **Typicall Variables (Among Several hundred Available from the Data Base.**

Variable Name	Format (units)
a. Current population	Number
b. Annual population growth rate	Percentage
c. Per capita income	Dollars
d. White collar workers	Number/percent of all workers
e. Median rent	Dollars
f. Business establishments	Number, by SIC Code
g. Median rent	Dollars
h. Average length of residence	Years
i. Median education	Years
j. Median household size	Number

Appendix C

Property Management Decision Rules

Appendix C

Property Management Decision Rules

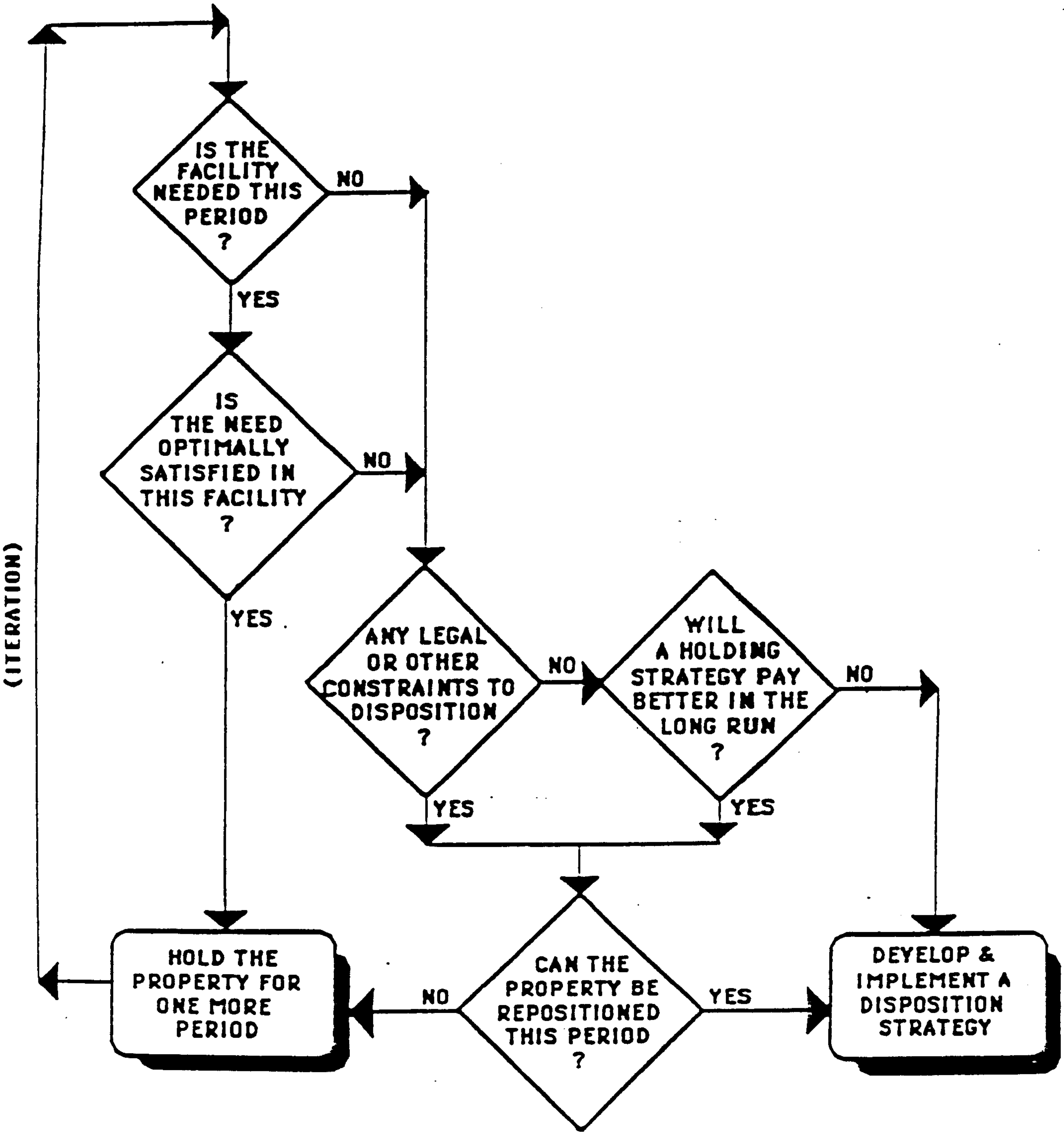
APPENDIX C

Table of Contents

APPENDIX C

EXHIBIT I

PUBLIC SECTOR PORTFOLIO MANAGEMENT
THE CALIFORNIA GSA ENGAGEMENT



SOURCE: ROULAC REAL ESTATE CONSULTING GROUP
OF DELOITTE HASKINS + SELLS

APPENDIX C

EXHIBIT II

Property Management Decision Rules

The following are subordinate issues associated with the major questions of Exhibit I. These issues establish a framework for later, more detailed investigations by State personnel. Although the development of a complete work program for addressing each issue is beyond the scope of the current engagement, a sample application of these rules to a property is in Exhibit III. More detailed examples of data needed for some individual issues are provided in Exhibit IV.

I. Is the Facility Needed [by the Current State Occupant] This Period?

A. Projected space needs of the current State occupant

1. Number of employees
2. Amount of equipment/furnishings
3. Budgetary constraints
4. Regulatory/statutory mandates
5. Proximity requirements (e.g., to other State agencies)
6. Other: ______________________________

B. Potential use by other State agencies

1. Flexibility of the property
2. Proximity requirements of other agencies
3. Regulatory/statutory restrictions
4. Lease restrictions
5. Relocation costs
6. Interest expressed by other agencies
7. Marketplace alternatives
8. Other: ______________________________

II. Is the Need [of the Current State Occupant] Optimally Satisfied in This Facility?

A. Best available option in terms of economics

1. State paying above/below market rent
2. Economies of scale (multiple agencies can share costs)
3. Unusual property features (expensive to find elsewhere)
4. Potential State income from sub-leasing space to a business
5. Potential one-time revenue from selling the facility
6. Impacts on valuation on nearby State owned properties
7. Impacts on community (e.g., State as a major employer)
8. Other: ______________________________

B. Best available option in terms of legalities

1. Specific regulatory/statutory mandates (e.g., prison site)
2. General mandates (e.g., one parole office per county)
3. Lease provisions
4. Litigation potential
5. Other: ______________

C. Best available option in terms of governmental relations

1. Locational preferences of agency manager
2. Locational preferences of agency staff
3. Possible incentives for altering manager/staff preferences
4. Surrounding community's attitudes at current location
5. Surrounding community's attitudes at potential new location
6. Other: ______________

III. Are There Any Legal or Other Constraints to Disposition?

A. Previous issues applicable to disposition as well as relocation

1. From "Is the Facility Needed This Period"
2. From "Is the Need Optimally Satisfied in This Facility"
3. Other: ______________

B. Additional Issues

1. Regulations/statutes pertaining specifically to disposition
2. Relevant regulations/statutes of federal and local agencies
3. Extraordinary factors (asbestos, toxic waste, historic site)
4. Pending legislation, executive mandates or court decisions
5. Other: ______________

IV. Will a Holding Strategy Pay Better in the Long Run?

A. Real estate market

1. Number/quality of current broker inquiries ("bird in hand")
2. Forecasts of rental rates and property appreciation rates
3. Pending, value-adding development of adjacent properties
4. Packaging with other properties in a portfolio offering
5. Potential return from upgrading the property prior to sale
6. Other: ______________

B. Government activities

1. Current negotiations with value-adding tenants
2. Pending appraisals, other property-specific analyses
3. Planned market analyses, economic development programs
4. Other: ______________

V. Can the Property Be Repositioned This Period?

A. Obstacles which probably cannot be overcome this period

1. Requirements for legislative or judicial actions
2. "Softness" (low prices) in the real estate market
3. Opposition by one or more high ranking government officials
4. New funding for property improvements prior to sale
5. Other: ____________________________

B. Obstacles that probably can be overcome this period

1. Complex negotiations
2. Creative ownership and/or financing vehicles
3. Management talent for packaging and marketing assets
4. Inputs to decision makers vis-a-vis the likely return on investment from property improvements prior to sale
5. Other: ____________________________

APPENDIX C

EXHIBIT III

Sample Application of Decision Rules

Old Town – Department of Transportation Building

The decision rules were applied to a sample property in the Demonstration area. The property is located in the Old Town District of the City of San Diego. The building is currently occupied by the Department of Transportation (DOT).

Description

The property is an approximately 120,000 square foot office building with additional undeveloped land (currently used for parking) and smaller buildings including maintenance facilities, an equipment shop and a gas station on 15 acres. The State owns the land and building. The surrounding area is mixed commercial, light industrial near Old Town San Diego State Park and is heavily influenced by the restoration of historic structures.

User Need

The DOT currently has 300 employees in the building and is expected to expand. The expansion may require additional parking. Thus, the DOT needs to either add-on or find new space and may be willing to relocate.

Economics

DOT does not charge rent to its operating units, therefore, we could not compare rent paid versus market rents. There is an established need for additional space from both DOT and DGS (downtown). It does not appear that this need can be met in the DOT office building.

There are no unusual features and the potential for income from renting the existing facilities to the private sector as offices is small compared to the potential income after repositioning the property. There will be minimal impact on nearby State properties if the property is repositioned, with the exception of potential increases in traffic.

The community impact may be positive if the DOT moves to a new site within the community. The property could be leased to a private tenant thereby increasing tax revenues and bringing more jobs into San Diego.

Legalities

There appear to be no legal constraints.

Politics

There appear to be no major political obstacles. There will be the required politics of involving the community in the study and ensuring the potential development conforms to the master plan and any other specialized designation, including historic district zoning.

Additional Constraints

The property is designated as an historic site which may limit its uses.

Real Estate Market

We determined there may be retail/hotel potential but that the office market currently was very soft.

Government Activities

There are currently no government activities that might affect the development. There may be a pending economic development program for the area as part of a city or county comprehensive plan.

Repositioning Obstacles

The primary obstacle is the soft office market, which limits the repositioning alternative. The local populace may oppose the increase in traffic generated by the new development. A new right-of-way configuration, including vacating right-of-way, may need to be negotiated. Based on past experience, it appears that the DOT and DGS have the management talent required to overcome these obstacles.

Summary

Based on the above preliminary analysis, it appears this property is suitable for repositioning. The current user needs to find new space, the property has no unusual features, and there is market potential for a retail/hotel development. There appear to be no legal or political constraints, nor any government activities which might affect the development. The primary obstacles are the soft commercial market, and the potential for complex right-of-way negotiations. It appears that the user and the DGS have the management talent required for the negotiations.

Appendix D

Alternative Financing Techniques

Appendix D

Alternative Financing Techniques

Appendix D

CONTENTS

PRIVATE SECTOR OWNERSHIP

PROPERTY SALE OR DEVELOPMENT

The State may finance the cost of constructing and/or operating facilities by selling surplus property or the real estate rights associated with the space above, below or adjacent to existing facilities. The State may also negotiate an investment from another agency or the private sector to be used for property enhancement.

SALE

Full or partial interest in buildings or land may be sold to the private sector. Proceeds may be used to purchase new land or buildings, rehabilitate existing buildings or make other capital improvements. The private sector receives the tax benefits associated with real property ownership.

Advantages

- Sale results in a one-time realization of proceeds which may provide the needed funds for acquisition or construction.
- Direct sale transactions are straight-forward and can usually be completed in a timely manner.

Disadvantages

- The State will give up all future rights to the property unless a repurchase option is part of the transaction.
- The administrative process to sell surplus property is time consuming and complex. After the parcel is declared surplus by an agency, it is offered to other State agencies. If no other agency needs the parcel, it is designated for disposal pending legislative approval. Upon approval, the parcel is offered to all local agencies who have six months to respond. (The majority of surplus land is sold to local agencies.) If no local agencies need the parcel, it is advertised to the private sector and sold on a sealed bid basis.

OPTIONS

Options are the rights to use the property rights at a future date. Options can be sold by the State for properties which are designated for disposition or redevelopment in the medium- to long-term. Options might include the right to buy or sell, the right of first offer to buy, sell, or lease, and the right to develop.

Advantages

- Sale of options provides some cash up front which could be used for improvements.

Disadvantages

- The State is agreeing to give up future property rights, if the option is exercised.

Example

Currently, options are not sold in State-owned properties due to the requirement of first offering the parcel to local agencies. The State does purchase options to buy or lease land owned by another party.

JOINT VENTURES

The State may work with the private sector, local redevelopment agencies and other parties to jointly own or develop properties. Typically, the State would contribute land to the partnership and the private sector or redevelopment partner would construct the facility.

Advantages

- The State may receive an upfront payment and/or a part of operating cash flows.

- The State may save construction costs by using the private sector expertise of the joint venture partner.

Disadvantages

- Joint venture agreements can be complex and difficult to negotiate.

- The State will not retain complete control over the facility.

- The revenues generated from participating in property cash flow generally will not be received in the short term as time is required for construction and lease up.

Examples

The State participates in joint ventures with other agencies, municipalities and private parties. For example, redevelopment agencies may finance and build a State-occupied building on State-owned land to redevelop a targeted area. Also, the State currently leases land to private developers to build co-generation facilities. The State buys the electricity and steam from the facilities. Another recent transaction was the construction of a private use office building near the Civic Center in Los Angeles. The City, County and State assembled their lands and jointly leased them to a private developer for a minimum rent and a percentage of the building revenues. This last transaction serves to bring new revenues to the State and should be pursued more often.

NEGOTIATED CAPITAL INVESTMENT

A negotiated capital investment is an agreement between a private developer and a public agency where one agrees to fund capital improvements in return for a concession from the other. For example, the public agency may build infrastructure improvements around a development in return for a portion of building operating revenues. Or, a developer may provide a foundation or enhancements in return for a zoning amendment allowing greater density.

The principal advantage to the State is reduced construction costs by receipt of a cash payment, valuable concessions, or services. The disadvantage is that non-cash transactions may be quite complex as a value must be placed on concessions or services.

Examples

- Private Sector Enhancements - The private sector may build or enhance a structure, such as providing a walkway or park, in return for zoning amendments, tax abatements, easements, right-of-way concessions, etc. In the Los Angeles Civic Center Building, the developer has proposed to build built a child care center.

- Private Sector Donation - The private sector may provide funds or reduce costs for a project. For example, on the two State College campuses (San Mateo and Bakersfield), the land sellers gave a reduced price to the college because they realized the benefits of owning property near a college campus.

- Other Public Sector Grant - Other public agencies may be persuaded to contribute funds or land, or to jointly develop/operate a State-owned structure. Occasionally, the State will contribute to another agency. Fox example, the Wildlife Board will purchase a property and lease it to the State. The State will build piers or a wharf which the Board will operate. The Board will use the lease payments from the State to pay debt service. Thus, the transaction is a type of grant from the State to the Board.

PRIVATE DEVELOPMENT AND OPERATIONS

Private development and operations entail on using private sector construction and operating techniques to save costs and time for the State. These techniques create opportunities to shift some risk, and therefore expense, associated with development and operation of real estate to the private sector. Some techniques include:

TURN-KEY CONSTRUCTION

Each development or rehabilitation project could be contracted out on a "turn-key" basis. Turn-key means the State would set the overall specifications and hire a private party to perform the work. Entire projects or portions of projects could be contracted out. The State could retain ownership and contract with the builder to build the building, or the State could agree to purchase the building upon completion. In the latter case, the contractor then assumes construction risk.

Advantages

- Turn-key construction spreads the ownership risk for a commercial venture between the State, the contractor/developer and the financing entity.

- This technique encourages efficiency by using fixed price contracts with penalties for late delivery and rewards for early completion.

- The State can save costs by taking advantage of the private sector's purchasing process (fewer regulations to satisfy).

Disadvantages

- The State has to relinquish control over construction. This can be mitigated by requiring periodic inspections by State personnel.

Example

To develop State-owned land, the State currently prepares detailed building specifications and hires contractors to a varying degree to build the building. The State also sometimes contracts out specification preparation to private architects. A new approach would be to issue preliminary specifications and encourage the private sector to find the land and design the building. The State would then lease the land and building and eventually purchase both. The State recently used this approach for constructing the Franchise Tax Board building in Sacramento.

CONTRACT OPERATIONS

Operations and maintenance could be contracted out to private operators. Current contracts are awarded on a sealed bid basis. A negotiated bid basis, or allowing the State to negotiate with bidders after the bids have been received, would introduce more competition into the process and reduce costs for the State.

The primary advantage is potentially lower operating expenses, due to private sector efficiencies, and the negotiated bid process. The primary disadvantage is that the State would relinquish control of operations.

LAND EXCHANGES

Structure

The State may trade land in a "like-kind" exchange with private parties or other governmental agencies in order to assemble large parcels or acquire more commercially viable land. The trades should be based on appraised value, not parcel size.

For trades with private parties, the State would first identify a parcel to acquire and parcels to trade. The trade participant then purchases the entire parcel or a portion of the parcel the State wishes to acquire and simultaneously conveys it to the State. In consideration of this transfer, the participant receives the particular parcel he/she agreed to acquire from the State.

Advantages

- No cash need exchange hands.

Disadvantages

- Transactions can be very complex, depending upon the number of owners. Moreover, the legislature must approve every transaction.
- It may take time to locate owners who want a State property and have something to trade. In the past, it has taken a number of years to complete transactions.
- It may take time to educate the public on the concept of a value-for-value rather that acre-for-acre trade.

Examples

The new Northeast Sacramento Highway Patrol Facility was built using a land exchange. A developer wanted the land the old facility was on for a nearby project. He built the new building on a different site and essentially traded parcels with the State. This transaction required special legislative approval to bypass the surplus land disposition procedures.

The Wyoming Public Lands Department recently traded 640 acres to the Federal Bureau of Land Management for 620 acres in a similar area. The Department trades with private ranchers to remove boundary problems and with the Forest Service to consolidate national lands.

The Texas General Land Office recently completed a multiple-party trade where it traded mountain land for a city parcel. In a simultaneous transaction, investors interested in mountain land (home owners, ranchers) purchased a piece of a downtown shopping center site for the same value as the mountain parcel. The investors then traded their piece of the commercial site for the mountain parcel. The Land Office is now the owner of an attractive shopping center site.

METHODS TO INCREASE VALUE

The State may generate additional revenues by increasing the value of its real estate. Value can be added by providing services and flexible financing terms.

Sample methods include:

ZONING

The State may work with local authorities to rezone its owned land for commercial purposes.

PLANNING

The State could work with planning authorities to ensure its parcels and their commercial uses are incorporated into the appropriate plans.

SERVICES

Title procedures, collection of rents, and other real estate services could be performed or facilitated by the State.

FINANCING TERMS

The State can sell land to the highest bidder, as opposed to some states which must sell at fair market value. The buyer can bid on an all cash or financing terms basis. On major sales, the State often will assist the buyer with financing by carrying paper. Interest is generally set at the prevailing market rate. To assist the buyer, the State might consider some creative financing options such as an extended amortization schedule.

LEASES

GROUND LEASES

Structure

Ground leases may be from the State on a State-owned parcel, or to the State, on State-owned parcels, the ground lease allows the State to derive annual revenues from the land and still retain ownership. Historically, ground leases payments were fixed amounts with perhaps an inflation index. Recently, landowners are beginning to negotiate for a fixed payment and a percent of facility revenues.

Example

The 32nd Agricultural District in Orange County leases land to a company which operates an amphitheatre on the parcel. The lease allows the state to receive a percentage of net profits from amphitheatre operations, as well as to use the facility for the local fair.

The Los Angeles Civic Center Building ground lease allows the three land owners, the State, city and county, a percentage of operating proceeds from the private-use office building.

LEASE/PURCHASE

Structure

Generally, lease/purchases are structured as an installment sale. Either another agency or private investors provide purchase/construction funds and lease the facility to the State. The State, as lessee, makes payments to the lessor which cover the purchase price/construction costs plus interest, over the terms of the lease. The principal payments go toward the purchase price and the State has the right to purchase the property during or at the end of the term. If properly structured, the interest component of the lease payments will be exempt from federal income taxation.

Once signed, lease purchase agreements may be transferred to large institutional investors or bought by underwriters and the payments are broken into Certificates of Participation (COPs).

To avoid the characterization of the agreement as debt, the contract must include a clause that the State's obligation to make lease payments is contingent upon yearly authorization and appropriation of funds for the payments. The State can not promise to raise revenue in the event of a shortfall to make payments. In the event of "non-appropriation", the lease would be cancelled.

The term is generally 25 to 30 years.

Advantages

- The State does not have to expend a large cash outlay up front, but can match cash flows or spread costs over multi-year periods.
- The obligation usually does not constitute "debt" under legal definitions, thereby avoiding voter referendum and preserving existing credit lines.
- If the contract is between State agencies, the transactions can be arranged in a short time (90 days) as legal documents are approved and the basic structure is well established. Transactions between the State and the private sector are more difficult to arrange.
- The State has the option to eventually own the building.

Disadvantages

- The Legislature must approve lease/purchase transactions, thereby complicating the process.
- These obligations are perceived as more risky than debt due to the non-appropriation possibility and, therefore, have higher nominal interest rates than debt.

- If title does not automatically transfer to the State, and the State must pay fair market value at the end of the lease term, the investor may expense depreciation for tax purposes. If title automatically transfers, depreciation is not allowed as the transaction is a conditional sale to a governmental body.

__Example__

The Franchise Tax Board Building in Sacramento is a lease/purchase transaction. The lease is for 20 years. The lease payments cover the costs to finance construction, including the developer's profit.

In Reeves County, Texas, The County floated $4.5 million tax-free serial bonds and sold them in a private placement to fund the construction of a new jail facility. The bond proceeds were placed in an interest bearing escrow account from which contractors draw to finance construction. When completed, the County will lease the prison from the investors. When the lease term expires, the County will own the facility. Repayment to bond holders is secured by a $35/day/prisoner revenue the County receives from the federal government. These revenues will cover lease payments and operating expenses.

SALE/LEASEBACK
(Leveraged Lease)

Structure

This structure is no longer feasible with private parties as most of the tax advantages have been eliminated. The mechanism may be used between public agencies. The State sells a facility it owns to another agency and then leases it back. The State signs a long-term lease, usually for the same term as the note, with options to renew. The contract may also include an option for the State to repurchase the facility at present market value. If properly structured, the lease payments and debt service should cancel each other.

Sale/leaseback allows the State to use existing equity to raise cash from another agency. This option may be an alternative when interest rates in the bond market are high.

LEASE/LEASEBACK

Structure

A lease/leaseback transaction consists of two leases, one for the land and one for the building. Typically, the State owns the land and executes a long-term ground lease to a lessor. The lessor leases back the land and all improvements to the State. At lease expiration, the State acquires all ownership of land and improvements.

The State's lease payments are annual appropriations. The ground lease provides the private lessor protection against loss should the State not make the annual appropriation. If the State defaults, the private lessor has use of the property for the length of the ground lease term and can use the time to locate another buyer or lessee.

Lease payments can be flexibly structured. Payments may be fixed or graduated with fixed or floating interest rates which allows the State the ability to time cash flows.

OFFICE LEASING

Leasing space from another party provides more flexibility than ownership and does not require a large initial cash outlay. Moreover, the building owner oversees building management and the local authority received property tax revenues.

Leasing office space is a suitable arrangement for smaller space users, users in remote areas where the State has no local maintenance department, or in a lease/purchase transaction where the State plans to eventually own the building.

MASTER LEASES

Structure

An innovative method of leasing space would be to combine multiple commercial leases into one master agreement with standard terms and conditions. The State could negotiate with a group of its largest landlords to determine lower lease rates based on volume of space occupied..

Advantages

- The State can save considerable sums by avoiding the expenses involved in entering multiple, smaller transactions.
- The State has the flexibility to determine the structure of the lease in order to satisfy present and future cash flow requirements.

Disadvantages

- The State must find a suitable group of landlords or investors with whom to negotiate.
- The State may miss significant savings should market rents decline substantially during the master lease term.

Example

If the State determines to relocate multiple agencies into a new office complex, a master lease may be signed for all the space required.

PUBLIC FINANCE

CERTIFICATES OF PARTICIPATION (COPs)

Structure

Usually used with lease/purchase transactions, COPs are generally secured by lease revenues. In general, investors put up funds in return for a participation in lease revenues.

The "issuer" of COPs is a trustee by assignment from the lessor. Lessee rental payments are passed through the trustee to certificate holders. No independent obligations (bonds) are created.

As opposed to bonds, COPs do not reflect the issuer's payment obligation. Rather, the lease or contract backing the certificates is the tax-exempt obligation. Rental payments are broken into principal and interest, and the interest portion is tax-exempt.

Advantages

- Generally, COPs are not considered debt because they are backed by lease revenues.
- COPs, especially with credit enhancements, appeal to a broad credit market and thus allow the State to fund larger capital projects.
- Several acquisitions or construction projects can be lumped into a master issue to reduce costs of administration and financing.
- The private sector can use COPs to finance construction of a state-occupied building.

Disadvantages

The COP issuing process is more complex than for revenue bonds. For this reason, the State generally issues revenue bonds.

Example

The City of Baltimore, Maryland presently leases space for many of its agencies at various locations throughout Baltimore. The City plans to consolidate office space and relocate certain departments closer to City Hall. As part of this plan, proceeds from the sale of $25.2 million in COPs are being used to construct 190,000 net square feet of office space near City Hall.

The source of payments is an annual appropriation from the City. If the City should fail to make the required payments, the COP trustee has the right to sell or lease the facility on the open market for the remainder of the ground lease term. A bond insurance company will pay the remainder of principal and interest outstanding as it becomes due.

POOLED MONEY ACCOUNTS

Structure

Pooled money programs include short-term loan pools funded with currently unused funds or a single large bond issue to cover multiple projects. The funds may then be drawn upon as needed.

The State currently has a pooled money account - the Public Works Board Investment Account - which may be used for short-term loans for personal property and real estate transactions. The Account is funded by pooling funds currently not used for their appropriated use. Borrowing agencies pay a pooled rate. Funds are repaid from bond proceeds.

Advantages

- For the bond issue, issuance costs are reduced due to economies of scale in the initial issuance and remarketing of the obligations.
- Pool proceeds can be invested until time of use. The State can earn income on the invested proceeds.
- Project timing is flexible.

Disadvantages

- Projects must be committed to and costs estimated for years in advance.

Example

By pooling funds with varying maturities, the Public Works Board Investment Account earns higher rates than regular short-term investments. An agency borrows the full amount and reinvests it with the Account until needed.

Deloitte Haskins & Sells is program administrator for the California Local Government Joint Powers Finance Authority. The Authority sold $451 million in bonds in August 1987 to be loaned out to various municipalities in California. The amount was determined from project requirements submitted by the participant municipalities. When the participants need funds, they submit a request to the administrator and specify the type of loan and terms. The administrator and remarketing agent determine the market interest rate and prepare the loan documents.

CREATIVE BOND OPTIONS

Creative bond techniques are primarily innovations in general obligation (G.O.) bond terms that make long-term municipal bonds more attractive to buyers.

Creative bond techniques can help the State by rescheduling interest cost from the near term to a more favorable period, by opening access to a particular segment of the market, or by actually lowering the costs of borrowing relative to a traditional G.O. bond. However, administrative costs are higher with creative bond options. These creative financing options are complex and require careful structuring and timing.

DEEP DISCOUNT/ZERO COUPON BONDS

These long-term bonds have interest rates substantially below current market yields. Because of the lower yields, the bonds are sold at a discount, i.e., at prices less than par value. Investors earn income on the difference between the issue price and the price at maturity, as well as any interest income. Zero coupon bonds have the deepest discount as interest is not paid in installments but is reflected in the discount rate.

Zero coupon bonds can lower interest costs and postpone interest payments for the State. However, such bonds provide less cash up front for capital purposes. Furthermore, the "balloon" payment at the end may be difficult to finance.

VARIABLE RATE BONDS

The interest rate on these long-term bonds is tied to one or more market rates, such as the prime rate or the U.S. Treasury Bill discount rate, and is not fixed. Because of the variable rate, the bonds are usually priced at close to par which relieves the investor of the risk of declining bond prices if interest rates rise.

The advantages to the State are lower initial interest costs, as the bonds generally would be sold during periods of lower rates. The State can also raise needed funds during volatile interest rate periods when investors are nervous about long-term fixed-rate bonds.

The major disadvantage is the variability in debt service payments. This risk can be mitigated somewhat by providing contingency reserves and by placing a ceiling on the interest rate. Another disadvantage is that some issues have a "put" feature which allows investors to sell back their bonds to the State. This feature may cause an unexpected need for refinancing should rates decline and investors want to switch to higher yield, fixed-rate securities.

PUT OPTION BONDS

These interest-bearing, long-term bonds allow investors to demand payment of the full face value plus accrued interest by giving a predetermined number of days' notice. Investors are willing to accept a lower yield in return for liquidity.

The major disadvantage is the potential for an unexpected need for refinancing.

BONDS WITH WARRANTS

Municipal bonds with warrants give the bond holder the option to purchase additional bonds at a fixed discount price during a specific period. These warrants are attractive to investors who may be willing to accept a lower interest rate at the time of purchase if they expect rates to decline further during the warrant period.

The advantage for the State is lower interest rates, but only if the holders do not exercise their warrants.

The major disadvantage is that if rates drop sharply, the State must issue additional bonds at the higher warrant rate rather than market rates. This risk can be mitigated by limiting the period during which the warrants may be exercised.

MINI-BONDS

These bonds are of shorter maturity and smaller denominations than other bonds and are redeemable at any time before maturity. Generally, these bonds are issued directly by the State and are not handled by an underwriter. These bonds are useful for interim financing to allow a project to begin, while waiting for more favorable, long-term rates.

INTERVIEWS

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Appendix E

Incremental Revenue and Cost Savings Estimates From Proactive Property Management

Appendix E

Incremental Revenue and Cost Savings Estimates From Proactive Property Management

APPENDIX E

INCREMENTAL REVENUES AND COST SAVINGS ESTIMATES FROM PROACTIVE PROPERTY MANAGEMENT

INTRODUCTION

This appendix presents order of magnitude estimates of incremental revenues and cost savings potentially available from proactive property management for three case studies. "Order of magnitude" means the amounts show the potential magnitude of revenues/savings available and not the actual dollar gain. Actual gains will depend upon the negotiation of each transaction and the market conditions at the time. Estimates are incremental in that only the additional revenues/savings generated from a proactive strategy are included.

CASE STUDY METHODOLOGY

The three case studies presented herein were chosen from 21 initially identified properties in the Demonstration Area. These three case studies were selected by applying the decision rules outlined in Appendix C. These three properties were selected because of their prime locations, willing agency-owners, and a willing community.

The case study strategies attempt to meet agency and community goals as well as to produce revenues. The strategies are not offered as the best repositioning alternatives but rather as possible scenarios that demonstrate different revenue/savings techniques.

Gains can be achieved both annually, (e.g., ground lease payments), and one-time, (e.g., land sales). The State should not expect to realize all these potential gains within the first few years of proactive management. The gains will be realized on a long-term basis.

Gains are presented on both an actual and a current dollar basis. The actual gains are shown in dollars that are not discounted for inflation or risk and are presented as a range to demonstrate the magnitude of gain. The current dollar figures represent the projected average annual revenues/savings in dollars discounted to current value. A discussion of the term and discount rate assumptions is contained in Exhibit I.

The calculations are not based on full feasibility studies, but on reasonable estimates based on limited market research and DGS materials. There are three major assumptions in the analysis. The first is that the actual demand will be sufficient to support the occupancy and rent estimates. DH&S did a limited current market analysis and determined that the repositioning strategies appeared reasonable; however, a full feasibility study should be done prior to starting any repositioning project.

The second major assumption is that the State would proceed with building new State-use structures regardless of the repositioning. Incremental revenues/savings could be applied to these additional costs or could be used for other purposes.

The third major assumption regards the exclusion of potentially significant costs. Moving expenses are not included on the theory that the State would move the personnel regardless of the strategy. Debt repayment is not included on the theory that most repositioned structures will be older and not have any existing debt.

Proactive Management Techniques

In analyzing the case studies, DH&S considered five major categories of proactive techniques:

1. Land Repositioning: This category covers revenues to be gained from leasing or selling surplus land or from repositioning currently used land.

2. More Efficient Space Usage: This category achieves cost savings by consolidating State-occupied space. Consolidation generates three types of savings: 1) if consolidated into State-owned space from space leased from the private sector, the forgone market rent increases would be saved, 2) if consolidation results in less space required, operations expense in an existing building and construction expense for a new building would be saved, 3) consolidation implies a sharing of personnel resources so that personnel years would be saved.

3. Alternative Financing Mechanisms: The State can save costs by using the financing mechanisms described in Appendix D. In particular, the State can save by using a pooled-money account for construction. Savings would be twofold: 1) the State would have to borrow less as less capitalized interest would be required, 2) the State would pay less annual long-term interest as it would need less long-term debt. A complete description of these savings is contained in Exhibit I.

4. Private Sector Building Efficiencies: The State can save costs by both operating and constructing buildings more effectively.

5. Centralized Public Development: All the above techniques can be incorporated on a larger scale by centralizing the public development function. Centralization would encourage both the construction and development experts to determine revenue strategies, and would allow additional savings from private sector efficiencies and larger scale financings.

The case studies emphasize techniques 1 - 3 due to limited available information on potential operations and construction efficiencies (technique 4) and the effects of centralized development (technique 5). All techniques are not applicable in every case.

CASE STUDIES

The general assumptions for all the case studies are in Exhibit I at the end of this appendix. The three case studies are presented in detail in Exhibits II - IV.

Del Mar Fairgrounds/Racetrack (Exhibit II)

The 22nd Agricultural District owns approximately 300 acres of land in Del Mar which contain fairgrounds, racetrack and administrative facilities, and paved and unpaved parking areas. The proposed repositioning is as follows:

- Ground lease approximately 3.5 acres to a hotel owner/operator for the construction of a 300 room all-suite hotel. The estimated land value is $1.5 million based on a survey of real estate brokers in the area.

- Construct a 45,000 square foot meeting hall on approximately 5 acres to be used jointly by the neighboring community and the hotel as a convention facility. The site will also contain paved parking for which the State will charge a daily fee.

- Renegotiate the racetrack operation lease which expires in 1989.

The incremental revenues are estimated to be:

	$ Millions		
	Annual		
	Actual	Current Dollar	One-time
Reposition land:			
- hotel ground lease revenue & percentage rents	$0.4 - 0.9	$0.2	
- parking revenue	0.1 - 0.2	nominal	
Alternative financing:			
- renegotiated racetrack lease revenue	0.6 - 1.2	0.3	
- reduction in annual interest	nominal	nominal	
Total Gain	$1.1 - 2.3	$0.5	$0.0

Downtown San Diego - DGS Building (Exhibit III)

DGS owns two city blocks in downtown San Diego (115,500 square feet). One block contains a State office building and the other contains temporary structures and parking. DGS estimates the value of the land to be $75/square foot or $8.7 million. Real estate brokers surveyed estimated the land value to be $90-120/square foot.

The Facilities Plan for San Diego County (DGS) recommends consolidating office space currently leased from the private sector into a new State building. Assuming that the State is going to build this new structure, it could build one to house both the consolidatable space and the space in the existing State building. The remaining lot could be ground leased to a developer for a private-use office building.

The incremental gain is estimated to be:

	$ Millions		
	Annual		
	Actual	Current Dollar	One-time
Reposition land:			
- private-use ground lease revenue and percentage rents	$0.6 - 1.0	$0.3	
- State parking	0.3 - 0.5	0.1	
More efficient space usage:			
- foregone market rents	0.3 - 1.6	0.3	
- construction cost savings as less space is required in new building			$2.3
- reduction in personnel years	1.3 - 2.6	1.0	
Alternative financing:			
- reduction in capitalized interest			1.7
- reduction in annual interest	0.1	0.1	
Total Gain	$2.6 - 5.8	$1.8	$4.0

Old Town - CalTrans Facility (Exhibit IV)

The Department of Transportation (CalTrans) owns approximately 15 acres next to the Old Town Historic State Park. DGS estimates the land value to be $16 million or $25/square foot. Old Town contains retail space and historic structures and is a major tourist attraction for San Diego. The CalTrans site contains an older office building, various lab facilities, and surface parking.

The proposed scenario would be to relocate the CalTrans facility to a less valuable site, sell 2 acres to the Department of Parks and Recreation for an entry way into Old Town, and ground lease parcels for hotel and retail development. Sales and lease proceeds could be used to offset the relocation expense.

The incremental revenues are estimated to be:

	$ Millions		
	Annual		
	Actual	Current Dollar	One-time
Reposition land:			
- ground lease revenue and percentage rents	$1.0 - 2.6	$0.6	
- sales proceeds			$2.2
Alternative financing:			
- reduction in capitalized interest			1.1
- reduction in long-term interest	0.1	0.1	
Total Gain	$1.1 - 2.7	$0.7	$3.3

Case Study Summary

Estimated incremental revenues/savings generated from three techniques applied to the case studies can be summarized as follows:

	$ Millions		
	Annual		
	Actual	Current Dollar	One-time
Reposition Land	$2.4 - 5.2	$1.2	$2.2
Efficient Space Usage	1.6 - 4.2	1.3	2.3
Alternative Financing Mechanisms	0.8 - 1.4	0.5	2.8
Total	$4.8 -10.8	$3.0	$7.3

DEMONSTRATION AREA ESTIMATES

Based in the three cases, the potential gain for the Demonstration Area is estimated to be $7.3 million from one-time transactions and $4.8 - 10.8 million annually.

The three cases are examples of what is possible for particular sites owned by the State. It is difficult to extrapolate a more specific Area or Statewide figure because of the highly individual nature of real estate transactions; every parcel of land is unique, due to its location, physical attributes, current use, zoning, political climate and current market conditions. Therefore, an assessment of the potential Statewide gain requires a complete analysis of the State's real estate inventory.

One approach to estimate Statewide gain would be to apply assumptions to Statewide square-footage or dollar-volume figures to determine revenues/savings. The problem with this approach lies in determining reasonable assumptions that could be applied across different property types, markets and strategies without having an accurate inventory of State land and its uses.

DGS is currently inventorying assets and developing a data base. Once the real estate inventory and data base is completed, further analysis could develop an appropriate methodology for Statewide estimates for the five techniques. Common data elements which could be used across techniques would be: the number of acres, use and market value of all land; land sorted by revenue generation potential (used, unused but leased, unused and not leased, surplus); average market value per square foot; average public and private sector lease rates; the number of square feet leased from the private sector; and consolidatable leased square feet. Additional data elements pertaining to operations and construction efficiencies and savings from economies of scale should also be developed in a separate study.

APPENDIX E

EXHIBIT I

General Assumptions

These estimates are based on DGS assumptions concerning future events and circumstances. DH&S believes the assumptions are not unreasonable. Some assumptions inevitably will not materialize and unanticipated events may occur subsequent to the date of this report. Therefore, actual gains achieved during the estimation period may vary materially from the estimates.

General Strategies

The strategies are not our estimate of the highest and best use of a parcel but rather alternative scenarios designed to show various revenue/cost savings techniques. The highest and best use for public land depends upon agency goals, community goals and the State need for revenue production.

Leases

As each parcel of real estate has different attributes, each lease will have different deal points. The lease terms presented here are based on very general assumptions and are not meant to demonstrate an "average" lease. Actual revenues generated may vary significantly, based on the negotiations.

Inflation

Inflation is assumed to average 5% per year.

Rent Increases

Commercial revenues from land improvements are assumed to increase with inflation. Office building revenues increase with inflation until the building reaches stabilized occupancy; thereafter, office revenues increase at 3% per year as all leases do not roll over every year. Base ground rents are assumed to increase every five years at 21%, which approximates the compounded inflation for the period.

Interest Rates and Issuance Costs

The State currently pays 7.9% interest on the Public Works Board Investment Account and 7.8% to 7.85% for long-term bonds (Treasury). (The yield curve is inverse due to the present uncertainty in the bond market after the October 1987 market crash.) The scenarios assume 8% interest for both construction and long-term financing. The State currently invests short-term funds at 6% (Treasury). The scenarios also assume a 2% issuance cost for long-term financing.

Capitalized Interest

All construction is assumed to be financed from a pooled account. Interest accrued during the construction period is capitalized and included in the long-term funding amount.

Saved Capitalized Interest

The State may save capitalized interest by accruing interest only on the loan balance and not the entire committed amount during the construction period.

For example, assume $10 million construction costs, an 8% construction loan rate and a 6% reinvestment rate. Our experience shows the average private sector loan balance over the life of the loan is 60%. This implies the average balance available for investing is 40%. The Treasury reports the average loan term from the Public Works Board Investment Account is 3 years.

Using conventional bond financing, capitalized interest would be $1.68 million. ([($10MM * 8%) - ($10MM * 40% * 6%)] * 3 years) Using a loan from a pooled account, capitalized interest would be $1.44 million. ($10MM * 60% * 8% * 3 years). Saved capitalized interest would be $240,000.

Annual Gain in Current Dollars

The annual gain is also presented in current dollars. This gain was determined by dividing the present value of the income/savings stream by the number of years in the analysis. We used a 15-year term, and 8% or 13% discount rate. A 15-year term allows five years for construction and lease up, and 10 years of stabilized gain.

The 8% discount rate represents the State's cost of capital and is applied to annual revenues/savings that are independent of speculative real estate development. The 13% discount rate represents the State's cost of capital plus a 3% standard business risk premium and a 2% real estate premium. The business risk premium represents the risk of investing in the stock market rather than government securities. The real estate premium represents the additional risks of real estate investment.

APPENDIX E

EXHIBIT II

Del Mar Case Study
Detail

Property name:	22nd Agricultural District (District), Fairgrounds/Racetrack, Del Mar, California
Description:	Over 300 acres of land which contain fairgrounds, horse racetrack and administration facilities, and paved and unpaved parking areas. The site is in a mixed commercial, multi-family and single-family residential area. Per DGS, the value for the entire parcel is $3.50/square foot or $46 million. Real estate brokers in the area have suggested subparcels used for hotel development would be worth $10 per square foot.
Suggested Repositioning:	The local community has expressed a need for a covered meeting hall. Also, a 300-room Hilton hotel is under construction on an adjacent parcel. The owner of the Hilton hotel has expressed an interest in building a second hotel on an adjacent parcel of State land. The State could ground lease a 3.5 acre parcel to the hotel owner/operator to build a 300-room hotel and use the lease revenues to build the desired covered meeting hall for community use. The meeting hall could also be used by the new hotel to help attract convention business. In addition to the ground lease, the State could renegotiate its existing lease with the entity which currently operates the racetrack. The present lease expires in 1989 and calls for the first $250,000 of operating receipts to be distributed to the District to cover operating expenses, the next $83,333 to entity for expenses, and 75% of the remainder to a State-controlled Capital Account for improvements.
Deal Structure:	The repositioning can be structured to provide multiple benefits to the State.

The hotel ground lease could be structured with a base rent and a percentage of revenues. An estimated 3.5 acres would be required. At $10 per square foot, this equates to a value of $1.5 million for the parcel. The hotel base rent is estimated to be 10% of the market value of the parcel or $150,000 per year. The base rent would be half this amount for each of the two years during the construction period. The base rent might increase every five years by a factor based on inflation for the period. Hotel revenues are divided into rooms, food and beverage, and other, with different percentages to the State assigned to each category. The estimated actual revenues from the hotel lease are $0.4 to $0.9 million per year, or $200,000 in current dollars.

As part of the meeting hall project, the State could provide paved parking and charge $2/day. The estimated actual revenues from parking are $100,000 to $200,000 per year, or $48,000 in current dollars.

A new racetrack lease might be structured as follows:

- Allow the District to run the racetrack food and beverage concession. The District has the requisite equipment and personnel, since it currently manages the concessions for the fairgrounds. The District would receive all concession profits as well as the rents that are currently paid to the operator.

- Increase the base rent to the District to $350,000 with a cost of living increase every five years thereafter.

- Increase the base to the operator from $83,333 to $100,000 per year.

- Divide the remaining net receipts (not including food and beverage concession) as follows: allocate 60% to the State - 5% to the District for expenses and 55% to the Capital Account, to be controlled by the 22nd District; allocate the remaining 40% to the operator.

The potential incremental revenues to the District from restructuring the lease in the above manner would be about $660,000 the first year. The operator would lose only $30,000 in revenues in the first year under the new lease. In general, the renegotiated lease would provide $0.6 to $1.2 million incremental annual revenues, or $309,000 in current dollars.

Market Analysis:

A recent publication states that all-suite hotel development in San Diego County is experiencing strong growth. In 1987, 31% of new hotels were all-suite properties, and in 1988, 23% percent of new hotels are expected to be all-suites. The hotel market in the Del Mar/North Coastal area is especially strong. As of November 1987, the Del Mar area had the second largest growth in average hotel occupancy, up from 66% to 73% since November 1986. The average daily room rate in Del Mar out-paced total county growth in room rates. Average daily room rates in Del Mar rose from $56.80 to $58.46, for a 3% gain during the November 1986 - November 1987 period. The increase for the total county in the same time period was less, with 2% growth in room rates. Increasing tourist demand, followed by commercial and military demand, accounts for Del Mar's strong hotel market. Given the hotel market in the Del Mar area, a hotel/meeting hall project might perform reasonably well.

PROJECT SCENARIO:
DEL MAR HOTEL AND CONVENTION FACILITY

CALIFORNIA DEPARTMENT OF GENERAL SERVICES
DEMONSTRATION PROJECT

DATE: 03-Nov-88

ASSUMPTIONS:

HOTEL ASSUMPTIONS:

# ROOMS	300
PARKING (1.5 SPACES PER ROOM)	450
TOTAL LAND AREA/SQ. FT.	150,000
LAND VALUE/SQ. FT.	$10
AVERAGE DAILY ROOM RATE	$75
AVERAGE FOOD AND BEV./PER ROOM	$30
AVERAGE MISC. REVENUE PER ROOM	$10
THE BASE GROUND LEASE RATE WILL BE 10% OF	
THE TOTAL LAND VALUE, OR	$150,000
THE ANNUAL LEASE PAYMENT WILL BE THE BASE RATE	
OR THE TOTAL PERCENTAGE RENT WHICH EVER IS GREATER.	
BASE GROUND LEASE ESCALATIONS (EVERY 5 YRS)	21.0%
% ROOM SALES TO STATE	6%
% FOOD AND BEVERAGE TO STATE	3%
% OTHER HOTEL REVENUE	5%

AVERAGE ANNUAL HOTEL OCCUPANCY

YEAR 1	0%(CONSTRUCTION)
YEAR 2	0%(CONSTRUCTION)
YEAR 3	50%
YEAR 4	50%
YEAR 5	75%

MEETING HALL ASSUMPTIONS:

GROSS SQ FT	45,000
CONSTRUCTION COST/SQ.FT.	$75
TOTAL ACRES	5
LAND VALUE (/SQ FT)	$3.50
PARKING SPACES	300
DAILY RATE	$2
ANNUAL PARKING USE	50%
ANNUAL DAILY RATE ESCALATION	5%

MEETING HALL CONSTRUCTION:

YEAR	% COMPLETE
1	50.00%
2	100.00%

MEETING HALL OPERATING COSTS

YEAR 1 (CONSTRUCTION)	0
YEAR 2	(233,500)
YEAR 3	(183,500)
YEAR 4	(83,500)
YEAR 5 (BREAKEVEN)	0

ASSUME MEETING HALL WILL BREAKEVEN FROM
YEAR 5 FORWARD

MEETING HALL FINANCE ASSUMPTIONS:

PERMANENT LOAN AMOUNT	3,772,900
INTEREST RATE	8.00%
TERM	360
ANNUAL PAYMENT	332,217
P.V. DISCOUNT RATE (REAL ESTATE RISK)	13.06%

RENEGOTIATED RACETRACK LEASE ASSUMPTIONS:

ANNUAL TRACK REVENUE INCREASE	5%
BASE RENT	$350,000
BASE RENT % INCREASE: EVERY 5 YRS	5%
DISTRICT NET RECEIPTS %	5%
CAPITAL ACCT. NET RECEIPTS %	55%

HOTEL PERCENTAGE RENT CALCULATIONS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ROOM REVENUES	0	0	2,716,784	4,735,498	7,406,759	7,661,097	8,254,152	8,666,059	9,100,202	9,555,212	10,032,973	10,534,621	11,061,353	11,614,420	12,195,141
FOOD AND BEVERAGE REVENUES	0	0	1,086,314	1,901,399	2,994,704	3,144,439	3,301,661	3,466,744	3,640,081	3,822,085	4,013,189	4,213,849	4,424,541	4,645,768	4,878,056
OTHER REVENUES	0	0	362,171	[illegible]	998,235	1,048,146	1,100,554	1,155,581	1,213,360	1,274,028	1,337,730	1,404,616	1,474,847	1,548,589	1,626,019
% RENT - 6% OF ROOM SALES	0	0	162,977	285,210	449,206	471,666	495,249	520,012	546,012	573,313	601,978	632,077	663,681	696,865	731,708
% RENT - 3% OF FOOD AND BEVERAGE	0	0	32,595	57,042	89,841	94,333	99,050	104,002	109,202	114,663	120,396	126,415	132,736	139,373	146,342
% RENT - 5% OF OTHER HOTEL REVENUE	0	0	18,109	31,690	49,912	52,407	55,028	57,779	60,668	63,701	66,886	70,231	73,742	77,429	81,301
TOTAL PERCENTAGE RENTS	0	0	213,681	373,942	588,958	618,406	649,327	681,793	715,883	751,677	789,261	828,724	870,160	913,668	959,351

ROJECT SCENARIO: DEL MAR HOTEL PROJECT

CALIFORNIA DEPARTMENT OF GENERAL SERVICES
DEMONSTRATION PROJECT
DATE: 03-May-88

ASH FLOW ANALYSIS YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
NUAL REVENUES:															
TEL REVENUE:															
GROUND LEASE	75,000	75,000	150,000	150,000	150,000	181,500	181,500	181,500	181,500	181,500	219,615	219,615	219,615	219,615	219,615
% HOTEL SALES (ABOVE BASE RATE)	0	0	63,681	223,942	358,958	436,906	467,827	500,293	534,383	570,177	569,646	609,109	650,545	694,053	739,736
TAL HOTEL REVENUE	75,000	75,000	213,681	373,942	508,958	618,406	649,327	681,793	715,883	751,677	789,261	828,724	870,160	913,668	959,351
ACK REVENUE:															
RENEGOTIATED RACETRACK OPERATIONS LEASE	0	662,750	691,887	722,482	754,606	788,336	841,253	878,440	917,400	956,487	1,001,536	1,065,113	1,112,575	1,162,410	1,214,737
MEETING HALL PROFIT (LOSS)	0	0	(233,500)	(183,500)	(83,500)	0	0	0	0	0	0	0	0	0	0
MEETING HALL PARKING	0	0	120,724	126,760	133,098	139,753	146,740	154,077	161,781	169,870	178,364	187,282	196,646	206,479	216,803
TAL REVENUE TO STATE	75,000	737,750	792,792	1,039,683	1,393,162	1,546,495	1,637,320	1,714,311	1,795,151	1,880,034	1,969,161	2,081,119	2,179,381	2,282,556	2,390,890
TURN ON EQUITY (BEFORE DEBT SERVICE)	1.24%	12.22%	13.14%	17.23%	23.08%	25.62%	27.13%	28.40%	29.74%	31.15%	32.63%	34.08%	36.11%	37.82%	39.62%
SS: PERMANENT FINANCING	0	0	332,217	332,217	332,217	332,217	332,217	332,217	332,217	332,217	332,217	332,217	332,217	332,217	332,217
TAL NET CASH FLOW TO STATE	75,000	737,750	460,575	707,466	1,060,945	1,214,278	1,305,102	1,382,093	1,462,934	1,547,817	1,636,943	1,748,901	1,847,164	1,950,339	2,058,673
TURN ON EQUITY (AFTER DEBT SERVICE)	1.24%	12.22%	7.65%	11.72%	17.56%	20.12%	21.62%	22.90%	24.24%	25.65%	27.12%	28.90%	30.61%	32.32%	34.11%

TAL "EQUITY" CALCULATION

MEETING HALL CONSTRUCTION COSTS	3,375,000 (A)
CONSTRUCTION PERIOD INTEREST	324,000 (B) = A * [illegible] * 2 YRS
UNDERWRITING FEE 2%	73,980 (C) = (A + B) * 2%
TO BE FINANCED	$3,772,980
VALUE OF LAND LEASED TO HOTEL	1,500,000
VALUE OF MEETING HALL LAND	762,300
TAL EQUITY	$6,035,280

ANNUAL GAIN IN CURRENT DOLLARS *

HOTEL LEASE REVENUES	$200,362
RENEGOTIATED RACETRACK LEASE	$389,593
MEETING HALL PARKING	$48,455

* CALCULATED USING A 13% DISCOUNT RATE

NEGOTIATED RACETRACK LEASE ANALYSIS	YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
RACETRACK OPERATIONS LEASE SCHEDULE AS CURRENTLY STRUCTURED																
TRACK NET RECEIPTS	(A)	2,300,000	2,415,000	2,535,750	2,662,538	2,795,664	2,935,448	3,082,220	3,236,331	3,398,148	3,568,055	3,746,458	3,933,781	4,130,470	4,336,993	4,553,843
CONCESSION PERCENTAGE RENT	(B)	1,200,000	1,260,000	1,323,000	1,389,150	1,458,608	1,531,538	1,608,115	1,688,521	1,772,947	1,861,594	1,954,674	2,052,407	2,155,028	2,262,779	2,375,918
UNDER CURRENT LEASE STATE RECEIVES 75% OF TOTAL RECEIPTS, DISTRIBUTED AS FOLLOWS:																
22ND DISTRICT	(C)	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
CAPITAL ACCOUNT	(D)	2,375,000	2,506,250	2,644,063	2,788,766	2,940,704	3,100,239	3,267,751	3,443,639	3,628,321	3,822,237	4,025,849	4,239,641	4,464,123	4,699,829	4,947,321
TOTAL RECEIPTS TO THE STATE		2,625,000	2,756,250	2,894,063	3,038,766	3,190,704	3,350,239	3,517,751	3,693,639	3,878,321	4,072,237	4,275,849	4,489,641	4,714,123	4,949,829	5,197,321

UNDER THE RENEGOTIATED LEASE SCENARIO, RECEIPTS TO THE STATE WOULD BE AS FOLLOWS:

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
DISTRICT:																
BASE	(C)	0	350,000	350,000	350,000	350,000	350,000	367,500	367,500	367,500	367,500	367,500	385,875	385,875	385,875	385,875
PERCENT OF NET TRACK RECEIPTS (5%)	(E)	0	96,250	104,280	110,627	117,283	124,272	131,611	139,317	147,407	155,903	164,823	174,189	184,023	194,350	205,192
(LESS NEW BASE AND $100,000 TO OPERATOR) TOTAL DISTRICT RECEIPTS		0	446,250	454,280	460,627	467,283	474,272	499,111	506,817	514,907	523,403	532,323	560,064	569,898	580,225	591,067
CAPITAL ACCOUNT:																
PERCENT NET RECEIPTS LESS BASE (55%)	(F)	0	1,060,750	1,147,163	1,216,896	1,290,115	1,366,996	1,447,721	1,532,462	1,621,401	1,714,930	1,813,052	1,916,079	2,024,258	2,137,846	2,257,113
CONCESSION PERCENTAGE RENT	(B)	0	1,260,000	1,323,000	1,389,150	1,458,608	1,531,538	1,608,115	1,688,521	1,772,947	1,861,594	1,954,674	2,052,407	2,155,028	2,262,779	2,375,918
CONCESSION PROFIT	(G)	0	630,000	661,500	694,575	729,304	765,769	804,057	844,260	886,473	930,797	977,337	1,026,204	1,077,514	1,131,389	1,187,959
TOTAL CAPITAL ACCOUNT		0	2,970,750	3,131,663	3,300,621	3,478,027	3,664,303	3,859,893	4,065,263	4,280,901	4,507,321	4,745,062	4,994,690	5,256,800	5,532,015	5,820,990
TOTAL RENEGOTIATED LEASE	(H)	0	3,419,000	3,585,950	3,761,248	3,945,310	4,138,575	4,359,004	4,572,079	4,795,808	5,030,724	5,277,385	5,554,754	5,826,690	6,112,239	6,412,057
NET INCREASE	(I)	0	662,750	691,887	722,482	754,606	788,336	841,253	878,440	917,480	958,487	1,001,536	1,065,113	1,112,575	1,162,410	1,214,737

FOOTNOTES:

C. = BASE PAYMENT TO DISTRICT WILL INCREASE TO [illegible] UNDER NEW LEASE
D. = [illegible] - $250,000 - 885,[illegible] = 75%
E. = [illegible] - $250,000 - $100,000 = 5.0%
MINIMUM BASE TO THE OPERATOR WILL BE INCREASED TO $100,000.
F. = [illegible] - $350,000 - [illegible] = 55.0%
G. - ESTIMATED CONCESSION PROFITS
I. = [illegible]

EXHIBIT III

Downtown San Diego Case Study
Detail

Property Name:	Department of General Services Downtown San Diego
Description:	Two city blocks (115,500 square feet) in downtown San Diego with a 182,000 gross, 106,000 net square foot office building, a 10,000 square foot temporary office, a 10,000 square foot motor pool garage, and surface parking. Per DGS, the land value for the unimproved area is about $75 per square foot. The total value is $27 million, including improvements. Real estate brokers surveyed indicate downtown land values are about $90-$120 per square foot.
Suggested Repositioning:	The Office of Project Development and Management (DGS) created a Facilities Plan for San Diego County (Plan) in October 1986. This Plan stated that, in 1986, there were 168,831 square feet of consolidatable office space leased from the private sector for an annual cost of $2.2 million. Assuming 5% inflation, this implies a 1988 lease rate of $15.23/square foot. According to brokers surveyed, the current average lease rate for downtown space is $25/square foot, including concessions. The Plan also projected that 195,000 square feet of consolidatable space will be used by 1996. The Plan recommends building a new structure to house the consolidatable space. An alternate strategy would be to build a new structure to house both the consolidatable and the current State office space on one lot and ground lease the other lot to a developer for a private-use office building. A reasonable estimate is that a 5% space savings would be gained from consolidation. Thus, the new State building would need about 291,250 net square feet (195,000 * 95% + 106,000). Both buildings would have underground parking. Both the community and local government appear willing to accept new construction on the site, as it is part of the redevelopment area.
Deal Structure:	The deal can be structured to provide multiple benefits to the State. The project timing would be to build the State-use facility, consolidate State employees in the new building, and then ground lease the parcel with the

existing State building to a private developer for a private-use building. The ground lease would include a base rent and a percent of building revenues. The private-use parcel is conservatively valued at $5.6 million (55,500 square feet x $100 per square foot). Base rent would be 10% of market value or $555,000 and would increase every five years by a factor based on inflation. The State would collect 10% of gross building revenues. The estimated actual revenues from the ground lease are $0.6 to $1 million, or $297,000 in current dollars.

DGS could use the Public Works Board Investment Account to finance construction of the State building and save interest cost. If regular bond proceeds are used, interest during the three year construction period would be $11.8 million. By using the Investment Account, construction interest would be about $10.1 million. The one-time savings due to reduced capitalized interest would be $1.7 million during the construction period. In addition, the State does not have to pay long-term interest on the saved capitalized interest. At 8%, this implies an annual savings of about $150,000.

The Plan suggests parking for State employees be included in the State building. The State could charge market rates and generate an actual gain of $0.3 to $0.5 million per year, or $113,000 in current dollars.

Savings from consolidation are multiple. First, agencies will be in brand new space at lower than market rents. Second, agency rent payments will no longer increase with the market or inflation for an estimated annual savings of $0.3 - $1.6 million, or $310,000 in current dollars.

Third, the 5% space savings should result in less construction costs. A savings of 9,750 net square feet implies 11,500 less gross square feet would be required. At an average cost of $200 per square foot, there would be a one-time construction savings of $2.3 million. Fourth, the 5% space savings implies a reduction in personnel due to consolidation of staff and functions. The Plan states there are about 760 employees currently using the consolidatable space. A 5% reduction implies 38 personnel years could be saved. At an average cost of $35,000, there would be a $1.3 million annual salary savings in the first year.

CALIFORNIA DEPARTMENT OF GENERAL SERVICES
DEMONSTRATION PROJECT
DATE: APRIL 28, 1988

ROJECT SCENARIO: DOWNTOWN OFFICE BUILDINGS

SSUMPTIONS

OLD STATE BUILDING ASSUMPTIONS

TAL SQUARE FOOTAGE OF OLD STATE BUILDING	182,000
T SQUARE FOOTAGE OF OLD STATE BUILDING	106,000
MOLITION COSTS	$3.13
TAL SQUARE FOOTAGE LEASED FROM PRIVATE SECTOR	170,000
ASE COST FROM PRIVATE SECTOR (/SQ FT - YEAR 1)	$15.25

E TEMPORARY STRUCTURES CURRENTLY HOUSE ONLY 2,500 FT OF OFFICE SPACE WHICH WILL BE MOVED TO THE NEW ATE BUILDING.

E NEW STATE BUILDING DEBT SERVICE WILL BE PAID BY USING ASE PAYMENTS CURRENTLY MADE TO THE PRIVATE SECTOR AND SESSING AGENCIES AN ADDITIONAL AMOUNT. ALTHOUGH THE AGENCIES LL BE PAYING INCREASED RENT, THEY WILL HAVE MARKET SPACE FOR LESS AN MARKET RENTS. INCREMENTAL SAVINGS ARE THE SAVED INCREASES IN YMENTS FORMERLY MADE TO THE PRIVATE SECTOR.

RSONNEL REDUCTION DUE TO CONSOLIDATION IS AS FOLLOWS:

RSONNEL YEAR REDUCTION -	38 INDIVIDUALS
ERAGE ANNUAL SALARY -	$35,000.00
DUCTION IN PERSONNEL EXPENSE -	$1,330,000

NEW STATE BUILDING ASSUMPTIONS

GROSS SQ FT OF NEW STATE BUILDING	345,000
NET SQ FT OF NEW STATE BUILDING	291,250
TOTAL PARCEL SIZE	60,000
LAND VALUE (/SQ FT)	$100.00
# OF PARKING STALLS	800
# OF REVENUE GENERATING PARKING STALLS	533
PARKING REVENUES PER MONTH PER STALL	$70.00
CONSTRUCTION COST PER SQ FT	$176.21
TENANT IMPROVEMENTS PER SQ FT	$25.00
LONG TERM LOAN AMOUNT	$81,666,559
INTEREST RATE	8.00%
TERM (MONTHS)	360
ANNUAL PAYMENT	$7,190,883

THE TOTAL PERMANENT LOAN AMOUNT INCLUDES THE COST OF CONSTRUCTION (BUILDING SHELL AND T.I. S) PLUS DEMOLITION COSTS PLUS CONSTRUCTION PERIOD INTEREST.
CONSTRUCTION OF THE NEW STATE BUILDING WILL BEGIN IN YEAR ONE, AND BE READY FOR OCCUPANCY IN YEAR FOUR.

THE COSTS TO MOVE PERSONNEL TO THE NEW BUILDING AND TO PAY OFF ANY DEBT ON THE OLD BUILDING ARE NOT INCLUDED IN THIS SCENARIO.

PRIVATE SECTOR OFFICE BUILDING ASSUMPTIONS

PRIVATE SECTOR OFFICE BUILDING (GROSS)	300,000
PRIVATE SECTOR OFFICE BUILDING (NET)	255,000
TOTAL PARCEL SIZE	55,500
ESTIMATED LAND VALUE PER SQ FT	$100.00
OFFICE RENT PER SQ FT (YEAR-6)	$31.92
NUMBER OF PARKING SPACES	435
REVENUE PER SPACE PER MONTH	$75.00
GROUND LEASE IS 10% OF ESTIMATED LAND VALUE-	$555,000
DURING THE CONSTRUCTION PERIOD, THE GROUND LEASE WILL BE ONLY 5% OF THE ESTIMATED LAND VALUE-	$277,500

GROUND LEASE ESCALATION IS 21% EVERY 5 YEARS.
PERCENTAGE RENT IS 10% OF GROSS BUILDING REVENUES.
TOTAL ANNUAL LEASE PAYMENT WILL BE THE PERCENTAGE RENT OR THE BASE RENT WHICH EVER IS GREATER.
BUILDING REVENUE IS PROJECTED TO INCREASE 3% PER YEAR ONCE THE PROPERTY HAS STABILIZED IN YEAR 6.
CONSTRUCTION IS NOT ANTICIPATED TO BEGIN UNTIL THE BEGINNING OF YEAR 4, WITH COMPLETION AT END OF YEAR 5.
OCCUPANCY IS PROJECTED AT 50% IN YEAR 6, 75% IN YEAR 7, AND 90% THEREAFTER.

P.V. DISCOUNT RATE (REAL ESTATE RISK)	13.00%
P.V. DISCOUNT RATE (COST OF CAPITAL)	8.00%

OUND LEASED PRIVATE SECTOR OFFICE BUILDING
OJECTED GROSS REVENUE

YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
BUILDING REVENUE	0	0	0	0	0	4,069,600	6,407,332	8,073,239	8,315,436	8,564,899	8,821,846	9,086,501	9,359,096	9,639,869	9,929,065
PARKING REVENUE	0	0	0	0	0	195,750	302,434	373,408	385,022	396,573	408,470	420,724	433,346	446,346	459,737
% RENT TO STATE	0	0	0	0	0	426,555	670,977	[illegible]	[illegible]	896,147	923,032	950,723	979,244	1,008,622	1,038,880
RENT PER SQ FT	$15.00	$26.25	$27.56	$28.94	$30.39	$31.91	$33.50	$35.18	$36.23	$37.32	$38.44	$39.59	$40.78	$42.00	$43.26
(RENT ESCALATION IS 5%)															

ASE PAYMENTS TO PRIVATE SECTOR

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
SQUARE FEET NEEDED	170,000	173,000	176,000	179,000	182,000	185,000	188,000	191,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000
RENT PER SQUARE FOOT	$15.25	$15.69	$16.16	$16.64	$17.14	$17.65	$18.18	$18.73	$19.29	$19.87	$20.47	$21.08	$21.71	$22.36	$23.03
TAL LEASE PAYMENT TO PRIVATE SECTOR	2,592,500	2,714,370	2,844,150	2,978,560	3,119,480	3,265,250	3,417,840	3,577,430	3,761,550	3,874,650	3,991,650	4,110,600	4,233,450	4,360,200	4,490,850
SS: LAST LEASE PAYMENT (YEAR 3)				2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160	2,844,160
ASE SAVINGS				134,400	275,320	421,090	573,680	733,270	917,390	1,030,490	1,147,490	1,266,440	1,389,290	1,516,040	1,646,690

PROJECT SCENARIO: DOWNTOWN OFFICE BUILDINGS

DEMONSTRATION PROJECT
DATE: APRIL 28, 1988

CASH FLOW ANALYSIS YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ANNUAL LEASE PAYMENTS FROM AGENCIES:															
(1) LEASE PAYMENTS (170,000 - 155,000 SQ FT) TO PRIVATE SECTOR	0	0	0	2,978,580	3,119,480	3,265,250	3,417,840	3,577,430	3,761,550	3,874,650	3,991,650	4,110,600	4,233,050	4,360,200	4,490,850
(2) ADDITIONAL LEASE PAYMENTS	0	0	0	4,212,323	4,071,403	3,925,633	3,773,043	3,613,453	3,429,333	3,316,233	3,199,233	3,080,283	2,957,433	2,830,683	2,700,033
(3) TOTAL AGENCY LEASE PAYMENTS	0	0	0	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883
REVENUES FROM REPOSITIONING:															
NEW STATE BUILDING PARKING REVENUES	0	0	0	335,790	352,580	370,208	388,719	408,155	428,563	449,991	472,490	496,115	520,921	546,967	574,315
OFFICE BUILDING BASE GROUND LEASE	0	0	0	277,500	277,500	555,000	555,000	555,000	671,550	671,550	671,550	671,550	671,550	812,576	812,576
OFFICE BUILDING PERCENTAGE RENTS (ABOVE BASE)	0	0	0	0	0	0	115,977	289,705	198,496	224,597	251,482	279,173	307,694	196,046	226,305
ADDITIONAL OFFICE AND STATE BUILDING REVENUES	0	0	0	613,290	630,080	925,208	1,059,696	1,252,860	1,298,608	1,346,138	1,395,522	1,446,837	1,500,165	1,555,588	1,613,195
TOTAL PROCEEDS FOR PAYMENT OF INTEREST	0	0	0	7,804,173	7,820,963	8,116,092	8,250,579	8,443,743	8,489,492	8,537,021	8,586,405	8,637,721	8,691,048	8,746,471	8,804,078
LESS: PERMANENT FINANCING	0	0	0	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883	7,190,883
TOTAL CASH FLOW TO STATE	0	0	0	613,290	630,080	925,208	1,059,696	1,252,860	1,298,608	1,346,138	1,395,522	1,446,837	1,500,165	1,555,588	1,613,195
REDUCTION IN PERSONNEL YEARS	1,330,000	1,396,500	1,466,325	1,539,641	1,616,623	1,697,454	1,782,327	1,871,444	1,965,016	2,063,267	2,166,430	2,274,751	2,388,489	2,507,913	2,633,309
SAVED LONG-TERM INTEREST PAYMENTS	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858	150,858
TOTAL GAIN TO STATE	1,480,858	1,547,358	1,617,183	2,303,789	2,397,561	2,773,521	2,992,880	3,275,161	3,414,482	3,560,262	3,712,809	3,872,446	4,039,511	4,214,359	4,397,362
RETURN ON EQUITY (TOTAL GAIN)	1.59%	1.66%	1.73%	2.47%	2.57%	2.98%	3.21%	3.51%	3.66%	3.82%	3.98%	4.15%	4.33%	4.52%	4.72%

TOTAL "EQUITY" CALCULATION

DEMOLITION COSTS	569,000 (A)	
CONSTRUCTION COSTS	60,792,450 (B)	
TENANT IMPROVEMENTS	8,625,000 (C)	
CONSTRUCTION PERIOD INTEREST	10,078,148 (D) = (A+B+C) * 80% * 8% * 3 YRS	
UNDERWRITING FEE (2%)	1,601,305 (E) = (A+B+C+D) * 2%	
TO BE FINANCED	81,666,559	
STATE BUILDING LAND VALUE	6,000,000	
PRIVATE BUILDING LAND VALUE	5,550,000	
TOTAL EQUITY	893,216,559	

ANNUAL GAIN IN CURRENT DOLLARS

--TOTAL OFFICE BLDG REVENUE *	$297,065
--STATE BLDG PARKING REVENUES *	$113,580
--SAVED PRIVATE SECTOR PMTS **	$317,321
--SAVED ANNUAL INT. PMTS **	$86,084
--REDUCTION IN PERSONNEL YRS **	$1,010,500

* CALCULATED USING A 13% DISCOUNT RATE
** CALCULATED USING AN 8% DISCOUNT RATE

LONG - TERM LOAN AMOUNT USING CONVENTIONAL FINANCING

DEMOLITION	569,000 (A)
CONSTRUCTION	60,792,450 (B)
TENANT IMPROVEMENTS	8,625,000 (C)
CONSTRUCTION INTEREST	11,757,034 (D) = (((A+B+C)*8%) - ((A+B+C)*4%*8%)) * 3 YRS
UNDERWRITING FEE (2%)	1,634,899 (E) = (A+B+C+D) * 2%
LONG TERM LOAN	83,379,643
LESS: TO BE FINANCED	81,666,559
SAVED DEBT	1,713,284
SAVED ANNUAL INTEREST PMTS	150,858

(1) THIS LINE REPRESENTS A PROJECTION OF LEASE PAYMENTS CURRENTLY MADE BY THE STATE TO OCCUPY PRIVATELY OWNED OFFICE FACILITIES.
(2) THIS LINE REPRESENTS INCREMENTAL LEASE PAYMENTS REQUIRED FROM THE AGENCIES FOR PAYMENT OF THE PERMANENT FINANCING INTEREST EXPENSE.
(3) COLLECTIVELY, STATE AGENCIES WILL PAY A TOTAL OF $6,750,669 PER YEAR FOR 30 YEARS TO SERVICE THE DEBT OF THE NEW STATE BUILDING.

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APPENDIX E

EXHIBIT IV

Old Town Case Study
Detail

Property Name:	Department of Transportation (CalTrans) Old Town, San Diego
Description:	15 acres near Old Town Historical State Park. Old Town is owned by the Department of Parks and Recreation and is a major tourist attraction for San Diego. The 11-acre Park has about 64,000 square feet of retail space, and multiple historic structures and museums. The CalTrans site currently has a 120,000 square foot office building, lab and warehouse facilities, other smaller miscellaneous structures and surface parking. DGS estimates the market value is $16 million (about $25 per square foot). Brokers surveyed in the area estimate the value is $35 - $50 per square foot for selected parcels. The office building was built in 1951 and thus is not energy efficient, is not reinforced up to earthquake standards, and has asbestos which must be removed.
Suggested Repositioning:	The office site is located at the "gateway" to the Park and retail space. Also, the building does not conform architecturally to the rest of the Old Town structures. The location and architectural nonconformance have caused community officials and Old Town merchants to express interest in the entire parcel. In 1979, several CalTrans field operations were relocated to Kearny Mesa, since they were deemed incompatible with Old Town development. CalTrans will need an additional 80,000 gross square feet of office space in the next few years. Moreover, the agency must bring the existing building up to code or relocate. The Old Town Task Force would like to expand the park onto the CalTrans site (Draft Old San Diego Community Plan, May 1987). The planned expansion would include retail, hotel, office, and parking uses. The suggested scenario is to move CalTrans operations to less expensive land - for example, Kearny Mesa at $20 per square foot (CalTrans). CalTrans staff has indicated there is no operational reason for the facility to remain in the current location.

CalTrans could then sell 2 acres to the Department of Parks and Recreation for an entrance to Old Town, ground lease 4 acres to a hotel developer, ground lease 4 acres to a retail developer for an additional 60,000 square feet of retail space, and reserve 5 acres for future parking and office development. The ground leases would include a base rent and a percent of revenues. The sale proceeds and annual ground lease revenues could be used to offset the cost of moving the CalTrans facilities.

Deal Structure: The ground leases are based on an estimated value of $25 per square foot, or $4.4 million for each use. The base rent would be 10% of market value or about $435,000. The base rent would be half this amount for each of the two years during the construction period and then increase every five years by a factor based on inflation. CalTrans would earn 10% of gross retail revenues and various percentages of hotel revenues. The Department of Parks and Recreation currently earns 2-12% of gross revenues on Old Town retail space. The estimated annual lease revenues are $1.0 to $2.6 million, or $601,000 in current dollars.

CalTrans could sell 2 acres to the Department of Parks and Recreation. At $25 per square foot, sales proceeds would be $2.2 million.

The State could save interest cost by using the Public Works Board Investment Account to finance construction. If regular bonds were used, capitalized interest would be $7.6 million for the three year period. By using the Account, capitalized interest would be $6.5 million, for a one-time savings of $1.1 million. In addition, the State does not have to pay long-term interest on the saved capitalized interest. At an 8% interest rate, this savings would be about $97,000 per year.

Market

A recent publication indicates that all-suite hotel development in San Diego County is experiencing strong growth. Thirty-one percent of all the hotels opened in San Diego County in 1987 were all-suite. Twenty-three percent of new hotels opening in 1988 are expected to be all-suite properties. The hotel market in the Old Town/Mission Valley area remains stable. The average occupancy for the Old Town area grew 1% from 74% to 75% between November 1986 to November 1987 with the county growth as a whole at 3%. For the same period, Old Town's average daily hotel room rate was stable at about $58 a night. In contrast, the I-15/Kearny Mesa area experienced a 9% decline in its average daily room rate. Total growth for the County in average room rates was 2%. Steady demand for hotel accommodations by tourists accounts for Old Town's stable hotel market. Due to the stable hotel market in the Old Town area, a hotel development is expected to perform reasonably well.

Currently, Old Town retail stores generate approximately $16-18 million in sales per year from about 64,000 square feet of retail space (Department of Parks and Recreation). Therefore, retail sales in Old Town average from $250 to $280 per square foot per year. (The scenario assumes the amount of retail space will almost double from the repositioning. The assumed sales for the new space drops to $200 per square foot to accommodate the increase in supply.) The outlook for retail sales in the San Diego area is promising. Coldwell Banker reports the 1986 total retail sales in the San Diego Metropolitan Statistical Area (MSA) was $14.3 billion, an 8% increase from 1985. In addition, Sales and Marketing Management Magazine projects retail sales for San Diego County to grow 53% from 1986 to 1991. Coldwell Banker reported an 8% area-wide vacancy in 1987. These factors suggest that San Diego has a strong retail market now and also will have one in the future. Thus, retail development is a reasonable repositioning alternative.

CALIFORNIA DEPARTMENT OF GENERAL SERVICES
DEMONSTRATION PROJECT

PROJECT SCENARIO: 1.5 TOWN RETAIL, OFFICE AND HOTEL CENTER
ASSUMPTIONS AND CASH FLOW SPREADSHEET — DATE: APRIL 26, 1988

RETAIL GROUND LEASE ASSUMPTIONS

NET RENTABLE SQ FT	[illegible]
TOTAL LAND AREA (ACRES)	4
TOTAL LAND AREA (SQ FT)	174,240
LAND VALUE PER SQ FT	$25.00
BASE GROUND LEASE - % OF LAND VALUE	10.00%
GROUND LEASE ESCALATION % (EACH 5 YRS)	21.00%
PERCENTAGE OF GROSS SALES TO STATE *	10.00%
ANNUAL GROSS SALES PER SQ FT	$200.00
GROSS SALES ESCALATION	5.00%

RETAIL OCCUPANCY TO BE 50% IN YR. 3, 75% IN YR. 4, AND 90% THEREAFTER.
RETAIL CONSTRUCTION WILL BEGIN IN YR. 1

* ANNUAL LEASE PAYMENT WILL BE THE GREATER OF THE BASE RENT OR THE PERCENTAGE RENT OF GROSS SALES.

P.V. DISCOUNT RATE (REAL ESTATE RISK)	13.00%
P.V. DISCOUNT RATE (COST OF CAPITAL)	8.00%

LONG TERM LOAN AMOUNT	50,236,697
INTEREST RATE	8.00%
TERM	360
ANNUAL PAYMENT	4,423,429

HOTEL GROUND LEASE ASSUMPTIONS

# OF ROOMS	300
PARKING (1.5 SPACES PER ROOM)	450
TOTAL LAND AREA (ACRES)	4
TOTAL LAND AREA (SQ FT)	174,240
LAND VALUE / SQ FT	$25.00
AVERAGE DAILY ROOM RATE	$80.00
AVERAGE FOOD AND BEV. / ROOM	$30.00
AVERAGE MISC. REVENUE / ROOM	$10.00
THE BASE GROUND LEASE AS % OF LAND VALUE	10.00%

THE TOTAL ANNUAL LEASE PAYMENT WILL BE THE BASE RENT OR THE TOTAL PERCENTAGE RENT WHICH EVER IS GREATER.

BASE GROUND LEASE ESCALATION (EVERY 5 YRS)	21.00%
% ROOM SALES TO STATE	6.00%
% FOOD AND BEVERAGE TO STATE	3.00%
% OTHER HOTEL REVENUE	5.00%
HOTEL OCCUPANCY IN YEAR 3 WILL BE -	30.00%
HOTEL OCCUPANCY IN YEAR 4 WILL BE -	50.00%
HOTEL OCCUPANCY IN YEAR 5 AND THEREAFTER -	75.00%

HOTEL CONSTRUCTION WILL BEGIN IN YR. 1

OFFICE BUILDING GROUND LEASE ASSUMPTIONS

TOTAL LAND AREA (SQ FT)	0
GROSS OFFICE SQ FT	0
NET OFFICE SQ FT	0
LAND VALUE (SQ FT)	$0.00
OFFICE RENT (SQ FT YR. 3)	$0.00
BASE LEASE - % OF LAND VALUE	0.00%
BASE ESCALATION (EA. 5 YRS)	0.00%
PERCENTAGE RENT - % OF GROSS REV	0.00%

CALTRANS RELOCATION ASSUMPTIONS

ACRES TO PURCHASE	5
LAND VALUE / SQ FT	$20.00
GROSS OFFICE SQ FT	200,000
OTHER SQ FT	40,000
OFFICE CONSTRUCTION COST / SQ FT	$160.00
OTHER CONSTRUCTION COST / SQ FT	$90.00
TENANT IMPROV. / SQ FT	$25.00
SALE OF CALTRANS PARCEL (2 ACRS)	$2,178,000
OPERATIONS SAVINGS (/ YR)	300,000

NOTES: THE CALTRANS/UNION PARCEL IS 15 ACRES IN TOTAL. IN THIS SCENARIO, BEGINNING IN YEAR 1, 4 ACRES WILL BE GROUND LEASED TO A HOTEL DEVELOPER, 4 ACRES WILL BE GROUND LEASED TO A RETAIL DEVELOPER AND 5 ACRES WILL BE SAVED FOR FUTURE OFFICE DEVELOPMENT. TWO ACRES WILL BE SOLD TO THE DEPARTMENT OF PARKS & RECREATION FOR AN ENTRY WAY INTO OLD TOWN.

PROJECT SCENARIO: OLD TOWN RETAIL, OFFICE AND HOTEL CENTER

CASH FLOW ANALYSIS	YEAR 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ANNUAL REVENUES:															
RETAIL CENTER:															
BASE GROUND LEASE	217,800	217,800	435,600	435,600	435,600	527,076	527,076	527,076	527,076	527,076	637,762	637,762	637,762	637,762	637,762
PERCENTAGE RENT (ABOVE BASE)	0	0	164,400	464,400	644,400	606,924	663,624	723,159	785,671	851,308	809,541	881,906	957,890	1,037,673	1,121,444
HOTEL OPERATIONS:															
BASE GROUND LEASE	217,800	217,800	435,600	435,600	435,600	527,076	527,076	527,076	527,076	527,076	637,762	637,762	637,762	637,762	637,762
PERCENTAGE RENT (ABOVE BASE)	0	0	0	0	73,575	7,558	34,289	62,358	91,829	122,775	44,581	78,699	114,521	152,136	191,630
OFFICE BUILDING:															
BASE GROUND LEASE	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PERCENTAGE RENT (ABOVE BASE)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ANNUAL REVENUES	435,600	435,600	1,035,600	1,335,600	1,589,175	1,668,634	1,752,065	1,839,669	1,931,652	2,028,235	2,129,646	2,236,129	2,347,935	2,465,332	2,588,599
PROCEEDS FROM LAND SALE	0	0	2,178,000	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RETURN FROM REPOSITIONING	435,600	435,600	3,213,600	1,335,600	1,589,175	1,668,634	1,752,065	1,839,669	1,931,652	2,028,235	2,129,646	2,236,129	2,347,935	2,465,332	2,588,599
RENT CONTRIBUTION FROM CALTRANS	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429	4,423,429
ANNUAL INTEREST EXPENSE	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)	(4,423,429)
OPERATIONS SAVINGS	300,000	315,000	330,750	347,288	364,652	382,884	402,029	422,130	443,237	465,398	488,668	513,102	538,757	565,695	593,979
SAVED ANNUAL INTEREST PAYMENTS	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903	96,903
TOTAL GAIN TO STATE	832,503	847,503	3,641,253	1,779,790	2,050,730	2,148,421	2,250,997	2,358,702	2,471,792	2,590,536	2,715,218	2,846,134	2,983,595	3,127,930	3,279,481
RETURN ON EQUITY (TOTAL GAIN)	1.29%	1.32%	5.65%	2.76%	3.18%	3.34%	3.50%	3.66%	3.84%	4.02%	4.22%	4.42%	4.63%	4.86%	5.09%

TOTAL "EQUITY" CALCULATION

LAND PURCHASE	4,356,000 (A)	
OFFICE CONSTRUCTION	32,000,000 (B)	
TENANT IMPROVEMENTS	5,000,000 (C)	
OTHER CONSTRUCTION	3,600,000 (D)	
CONSTRCT. PERIOD INT.	6,473,664 (E)	- (A+B+C+D) * 60% * 8% * 3 YRS
LESS: SALE PROCEEDS	(2,178,000)(F)	
UNDERWRITING FEE	985,033 (G)	- (A+B+C+D+E-F) * 2%
TO BE FINANCED	50,236,697	
REMAINING LAND VALUE	14,157,000	
TOTAL EQUITY	64,393,697	

LONG TERM LOAN AMOUNT USING CONVENTIONAL FINANCING

LAND PURCHASE	4,356,000 (A)	
OFFICE CONSTRUCTION	32,000,000 (B)	
TENANT IMPROVEMENTS	5,000,000 (C)	
OTHER CONSTRUCTION	3,600,000 (D)	
CONSTRCT. PERIOD INT.	7,552,608 (E)	- [(A+B+C+D)*8%*3YRS]-[(A+B+C+D)*40%*6%*3YRS]
LESS: SALE PROCEEDS	(2,178,000)(F)	
UNDERWRITING FEE	1,006,612 (G)	- (A+B+C+D+E-F) * 2%
LONG TERM LOAN	51,337,220	
LESS: TO BE FINANCED	50,236,697	
SAVED DEBT	1,100,523	
SAVED ANNUAL INT PMTS	$96,903	

ANNUAL GAIN IN CURRENT DOLLARS

GROUND LEASE REVENUE *	$600,969
OPERATIONS SAVINGS **	$229,757
SAVED ANNUAL INT. PMTS. **	$55,296

* CALCULATED USING A 13% DISCOUNT RATE.
** CALCULATED USING AN 8% DISCOUNT RATE.

CALIFORNIA DEPARTMENT OF GENERAL SERVICES
DEMONSTRATION PROJECT

OLD TOWN RETAIL, OFFICE AND HOTEL CENTER - REVENUE PROJECTIONS

PROJECTED RETAIL REVENUES YEAR	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ESTIMATED GROSS RETAIL SALES	0	0	6,000,000	[illegible]	[illegible]	11,340,000	11,907,000	12,502,350	13,127,468	13,783,841	14,473,033	15,196,685	15,956,519	16,754,345	17,592,062
TOTAL PERCENTAGE RENT	0	0	600,000	900,000	1,080,000	1,134,000	1,190,700	1,250,235	1,312,747	1,378,384	1,447,303	1,519,668	1,595,652	1,675,434	1,759,206

PROJECTED HOTEL REVENUES	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
ROOM REVENUES	0	0	2,628,000	4,380,000	6,570,000	6,898,500	7,243,425	7,605,596	7,985,876	8,385,170	8,804,428	9,244,650	9,706,882	10,192,226	10,701,838
FOOD AND BEVERAGE REVENUES	0	0	985,500	1,642,500	2,463,750	2,586,938	2,716,284	2,852,099	2,994,704	3,144,439	3,301,661	3,466,744	3,640,081	3,822,085	4,013,189
OTHER REVENUES	0	0	328,500	547,500	821,250	862,313	905,428	950,700	998,235	1,048,146	1,100,554	1,155,581	1,213,360	1,274,028	1,337,729
% RENT - 6% OF ROOM SALES	0	0	157,680	262,800	394,200	413,910	434,606	456,336	479,153	503,110	528,266	554,679	582,413	611,534	642,110
% RENT - 3% OF FOOD AND BEVERAGE SALES	0	0	29,565	49,275	73,913	77,608	81,489	85,563	89,841	94,333	99,050	104,002	109,202	114,663	120,396
% RENT - 5% OF OTHER HOTEL REVENUE	0	0	16,425	27,375	41,063	43,116	45,271	47,535	49,912	52,407	55,028	57,779	60,668	63,701	66,886
TOTAL PERCENTAGE RENT	0	0	203,670	339,450	509,175	534,634	561,365	589,434	618,905	649,850	682,343	716,460	752,283	789,898	829,392

PROJECTED OFFICE BUILDING REVENUES	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
GROSS OFFICE REVENUES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL PERCENTAGE RENT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Appendix F

Survey of Real Estate Management Practices In Other States

Appendix F

Survey of Real Estate Management Practices In Other States

APPENDIX F

SURVEY OF REAL ESTATE MANAGEMENT PRACTICES

IN

SELECTED STATES

MASSACHUSETTS

The Division of Capital Planning and Operations (DCPO), which is part of the Executive Office of Administration and Finance, was created in 1980 to centralize the control and management of all real property owned by the state. The major goals of the Division include: better planning with regard to the use of the state's real property; ensuring design excellence; improving construction management; focusing greater attention on preventative maintenance; and increasing energy efficiency. The Division's responsibilities are divided among eleven offices, as described more fully below.

Before DCPO was created, management of the state's real property was highly decentralized. As a result, the process of developing and implementing a highly centralized system is in many ways not yet complete. In addition, centralization without decision authority granted from the legislature is proving to be inefficient. For example, the disposal of virtually all surplus property and the granting of all easements must be approved by the legislature. The result can be needless delays when the property in question is a relatively small parcel of little practical use to the state. In short, Massachusetts' real estate mangement system is still evolving eight years after the creation of DCPO.

The legislation establishing DCPO called for the deputy commissioner to name an advisory council to provide input with regard to all of the Division's duties. The formation of this group has been stalled, however, because while leaders in the private sector real estate industry are the most logical choice for council members, serious ethical issues are raised by including on the council any individual who would have a material interest in DCPO's policies. So far, DCPO has found no solution to this conundrum.

Management of Office Space

Space Allocation. The Office of Real Property (ORP) is responsible for determining the appropriate use of all state property and assists other agencies in meeting their space needs. As such, ORP both assigns state-owned space and acquires, either through lease or purchase, additional space as needed. There are cases where an entire building is occupied by a single agency so that ORP is less involved in their management, although ORP has the authority to allocate all space in these buildings. Some state entities, such as colleges and universities, are more autonomous in their space management, but they must turn to DCPO when considering leasing additional space or undertaking capital improvements.

Leasing of Office Space. If no state-owned space is available to meet an agency's needs, ORP will issue an RFP for the space. ORP works with the agency to determine the agency's exact space needs as it will be advertised. Both the agency and ORP review the proposals that are received. The agency recommends to ORP the property it feels is the best choice and ORP can either accept or reject this recommendation. ORP is planning on instituting a slight change to this process whereby it will first develop a short-list of properties from which the agency can choose.

Maintenance. The Office of Facilities Management is responsible for the overall maintenance of state-owned buildings, including preventative maintenance and repair, emergency repair, energy conservation and compliance with health, safety and fire codes.

Development Functions

Disposition of Surplus Property. The Office of Real Property is responsible for the acquisition and disposal of all state property. This office is responsible for monitoring the use of all state property and determining, with the advice of affected state agencies, whether a piece of property is under utilized or not needed. ORP does not, however, have any system for routinely reviewing state property to identify surplus property. Underutilized property will typically come to DCPO's attention either as part of its planning functions or, more commonly, when private individuals express an interest in acquiring the property. At present the largest pieces of potentially surplus state property which DCPO is aware of are old farms and school campuses held by the Department of Mental Health (DMH). While these lands and buildings are no longer needed for their original use (education and training of the mentally impaired), DMH is in the process of a major replanning effort and so is reluctant to part with these properties. Final disposition of the property will not be decided until DMH completes its planning process.

In instances when ORP makes the determination that property is surplus, all state agencies must be notified of its availability. If no agency indicates a potential current or future use, ORP then begins investigating whether there is any other public use for the property by other government entities in the state. Only when no public use is found for the property are competitive bids for non-public uses of the property considered. In disposing of the property its value is calculated both for its highest and best use and with any encumbrances imposed by the commissioner of the DCPO. All transfers of state property, whether from one state agency to another or to a private individual or entity, must be approved by the legislature. The proceeds of all sales are devoted to the state's general revenues.

Construction Projects. The Office of Programming conducts master plans and studies of proposed projects to determine the most cost-effective way to meet an agency's needs for facilities. These studies are either done using in-house engineers and architects or are contracted out to private consultants. The Office of Capital Planning and Budgeting helps state agencies form long-range capital facilities development plans. In addition, this office assists agencies in assessing the need for and cost of deferred maintenance and repairs.

If a new construction project is undertaken, the Office of Project Management will oversee all design and construction activities with an eye to ensuring that construction schedules and budgets are adhered to.

MARYLAND

Most of the state's real estate management responsibilities fall within the Department of General Services. The primary exception is that the Department of State Planning acts as a clearinghouse for the disposal of surplus property (as described more fully below). Both of these are cabinet level departments.

Management of Office Space

Space Allocation. The Office of Real Estate (ORE) is responsible both for managing most state-owned office space and for leasing privately-owned office space when needed. (The only state agencies that manage their own office space are the University of Maryland, the state hospitals, the Department of Transportation and the Port Authority.) State agencies in need of additional space apply to ORE which then determines whether this need can be met in state-owned space or if leased space is needed. They maintain a data base on the use of existing space to help ensure that state-owned space is used as efficiently as possible. For example, this data base was used to help plan the current relocation of a number of small agencies from state-owned space in the capitol to privately leased space to make room for larger agencies.

Leasing of Office Space. In the event that no suitable state-owned space is available, ORE is required to publish an RFP in the Maryland Register and local newspapers. After reviewing and evaluating the proposals ORE notifies each applicant of the relative standing of their proposals. For example, an applicant might be informed that their proposal does not provide enough parking or that their price is not competitive with other offers. The applicants are given time to prepare best and final offers taking these criticisms into consideration. All proposals are scored on the basis of 15 standard criteria weighted according to their overall importance. These criteria include such factors as price, access to transportation, amenities and location. The agency that will be using the space also reviews all proposals and makes its recommendation. The agency's recommendation is one of the most heavily weighted criteria used. The proposal with the highest total score is selected.

Maintenance. The maintenance and repair of buildings managed by ORE is handled by the Plant Management Division of the Department of General Services. The agencies that manage their own space also assume responsibility for maintenance of these buildings.

Development Functions

Disposition of Surplus Property. While ORE manages all state-owned office space, state agencies do manage any other property that they own. All agencies are required to notify the Department of State Planning (DSP), which is a parallel agency to the Department of General Services, of any surplus property. The DSP does not attempt to identify surplus property, but rather relies on agencies to come forward with any unused property. This property is then offered to other government agencies in the following order: state agencies, county agencies, local governments and the federal government. If none of these entities are interested in the property the ORE arranges for it to be sold at a public auction. (ORE handles all acquisition and disposition of state real property.) The proceeds of these sales goes into general revenues.

Construction Projects. Plans for new construction initiate in the DSP. From time to time, usually at the request of an agency having trouble finding suitable space, the planning department will review the leased space in an area and determine whether new state-owned space is needed. The DSP prepares the capital budget for the legislature so all construction projects must approved by this department. If a construction project is begun, the project is overseen by the Office of Engineering and Construction in the Department of General Services.

In recent years, the state has done a number of lease-lease back deals. Since these projects do not require a capital outlay they are handled by ORE.[1] However, the state is now favoring turnkey development because it is believed to be a more cost-effective means of construction. This type of development will be handled by the Office of Engineering and Construction.

MINNESOTA

The management of Minnesota's real property is handled by the Divisions of Real Estate Management, Plant Management and Building Construction within the Department of Administration.

Management of Office Space

Space Allocation. The Real Estate Management Division (REMD) is responsible for allocating state-owned office space in the capitol and in a few buildings in other parts of the state. Each agency is required to bring excess space to the attention of REMD for allocation to other agencies. To the extent that there is any excess state-owned space, REMD will lease it to non-profit groups.

In addition to the office buildings managed by REMD, several state entities manage their own buildings. These entities include the Department of Transportation, the Department of Natural Resources, and various state colleges, universities, hospitals and correctional facilities. These agencies may lease out any of their excess space, but they must go through REMD to lease any additional space they might need.

Leasing of Office Space. If no state-owned space is available to meet the needs of an agency, REMD will work with

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[1]Lease-lease back arrangements are not used to circumvent the capital budgeting process. The DSP would recommend to an agency that this type of deal be used because it was thought to be more cost effective. The ORE was also careful to inform the budgetary committees in the legislature that this arrangement was being used so it they would not appear to be trying to slip construction projects past the legislature.

the agency to locate privately-owned space to be leased. While state law does not require a competitive bidding process, REMD typically issues an RFP for the desired space. Proposals are evaluated on their overall merits and not simply on the basis of which is most inexpensive. However, if the space needs of an agency are unique (for example, an agency that requires laboratories), the RFP process often fails to generate suitable responses. In this case, REMD will conduct a search for the space and negotiate a lease.

Maintenance. Maintenance of the buildings managed by REMD is handled by the Division of Plant Management. The agencies which control their own buildings are responsible for all maintenance and repair.

Development Functions

Disposition of Surplus Property. REMD is also responsible for all acquisitions and conveyances of state real property (other than land used for roadways by the Department of Transportation). All state agencies are required to report any surplus lands to REMD. REMD does not undertake any review of the agencies' property to determine if land is surplus, but rather relies on the agencies to report any used land to them. Surplus property is first offered to all other departments in the state government. If no state agency is interested in the property it is then advertised in the newspaper and sold to the highest bidder. The proceeds of the sale go into general revenues.

Construction Projects. If a state agency wishes to have a new building constructed it must seek approval of this project from the legislature. (In general, those agencies that would pursue such capital projects are those previously identified as managing their own buildings.) The Building Construction Division reviews all construction plans and oversees the completion of the project. No new general office buildings (those shared by a number of agencies) have been built in several years, so most requests for additional space are met by leasing privately-owned space. A study is currently being conducted by the legislature on the question of whether the state should continue to lease space or build new buildings.

PENNSYLVANIA

The Department of General Services is responsible for management of the state's real property.

Management of Office Space

Space Allocation. Most state-owned office space is managed by the Space and Facilities Department (SFD). Several agencies do own and manage their own office buildings. SFD is not responsible for allocating space in these buildings. When a state agency needs additional office space it submits a request to SFD. This department then determines whether there is space available in state-owned offices which fit the needs of the requesting agency. Currently, there is little excess space in state-owned buildings so most requests must be met by leasing privately-owned office space.

Leasing of Office Space. Once it is determined that there is no state-owned space available that suits the growing needs of a state agency, another branch of the Department of General Services, the Bureau of Real Estate (BRE), will begin the process of leasing space in the private sector. The BRE will place newspaper ads describing the agency's space needs and requesting proposals for leased space. Each proposal is evaluated not only in terms of the cost of the space, but also with regard to such factors as location, access to public transportation, amenities and any unique concerns of the agency requesting the space. Once it has reviewed the proposals, the BRE will determine which offer will best meet the needs of the agency while minimizing cost. When the BRE makes its decision the leasing agency can accept its finding or make the case for another property rejected by the BRE which it feels would better serve its needs.

When the BRE and the leasing agency agree on which property should be leased a rather complicated process is begun to secure final approval of the transaction. The lease must be reviewed and approved by each of the following: the leasing agency, the BRE, the Secretary and the General Counsel of the Department of General Services, the Governor's Budget Office, the State Attorney General, and, finally, the Board of Commissioners of Public Grounds and Buildings.

Maintenance. The Buildings and Grounds Department is responsible for the maintenance and repair of all state-owned buildings, including those managed by agencies other than SFD.

Development Functions

Disposition of Surplus Property. There are a number of state agencies that own property, most notably the state's hospitals and schools. Each agency must annually inventory its property and indicate its current or planned use. The agencies report the results of this annual evaluation to the BRE and indicate whether it has any surplus property to be disposed of. The BRE does occasionally question whether an agency actually has a legitimate use for its property, but this is a relatively rare event.

When property is determined to be surplus, the BRE then notifies all other state agencies that this property is available. If an agency is interested in the property the BRE will evaluate whether they truly have a need for the property. If so, ownership is transferred to that agency with no transfer of funds. If no other agency is interested in the property it is placed on a surplus property list which goes before the legislature. If the legislature determines that the property should be disposed of it is then advertised for sale at a minimally acceptable price. The land is then sold to the highest bidder with the proceeds of the sale going into general revenues.

It is interesting to note that the determination of whether a property is surplus is left to the agency owning the property. There would appear to be little incentive to report property as surplus, especially considering that the agency giving up the property does not receive the proceeds from the property's sale. It is assumed that agencies are not reluctant to part with surplus property because of the costs associated with maintaining the property.

Construction Projects. When an agency decides that it needs a new building, it will go before the legislature to seek approval for the project. If approved, the Department of General Services issues bonds for the project and the Bureau of Public Works oversees the construction

VIRGINIA

Most of the real estate management responsibilities in Virginia state government are vested in the Division of Engineering and Building within the Department of General Services (DGS), which in turn reports to the Secretary of Administration. The Division of Engineering and Building is currently being restructured internally into several bureaus, including the bureaus of Real Property Management, Capital Outlay Management, Facility Management and Administration. Additionally, the Department of Planning and Budget, which reports to the Secretary of Finance, plays a role in approving leases and in the process of developing new capital projects.

Management of Office Space

Space Allocation. The Division of Engineering and Building (DEB) is responsible for allocating and managing state-owned office space in the capitol area. In general, however, each individual state agency owns or leases its own space.

Leasing of Office Space. If an agency seeks to lease additional space it submits a justification for its expansion to the DEB for approval. DEB in turn forwards the request to the Department of Planning and Budget (DPB) who determine if this program should be expanding. DEB also reviews the proposal to determine if the amount of space requested is appropriate given the agency's personnel and functions. Both the DEB and DPB must approve the agency's request. Once an agency's justification is approved the agency begins to identify alternative proposals and to select what it feels to be the most appropriate property. The agency then submits its proposal to the DEB including a description of the property it recommends and several alternatives. The agency must describe the criteria it used to evaluate these alternatives and include a market study for property of this type in the relevant area. The DEB and DPB must approve the proposal before it is forwarded to the Governor for his approval.

Maintenance. The maintenance of property managed by DEB is done by the Buildings and Grounds staff within the DEB (this staff will be known as the Bureau of Facility Management once DEB's reorganization is completed). Each agency is responsible for the maintenance and repair of the buildings they manage themselves, although DEB sets standards which the agencies must adhere to.

Development Functions

Disposition of State-Owned Land. The DEB is required by law to periodically review the state's land assets and determine if any land should be surplussed. A data base of the state's 800-900 tracks of land was developed in 1980 to assist with this oversight function. However, this data base was lost when the responsibility of running it was transferred from one agency to another several years ago. A new data base is in the planning stages buy has yet to be implemented. As a result, this oversight function is currently very difficult to perform.

State property is deemed to be surplus by the DEB if it is currently not used or underutilized by the controlling agency and if the agency does not have any future use for the land. In theory the DEB has the authority to declare land surplus without the agency's approval, but in practice the DEB is reluctant to be so heavy handed and so works with the agency to "convince" them to declare it surplus themselves.

Once land is deemed to be surplus, it is offered to other state agencies that have expressed an interest, or are likely to have an interest, in that type of property. The DEB does not notify all state agencies that the property is available because it was found that agencies would express interest in property that they had no real need for. If the property is not claimed by any other state agency it is then offered to local governments in the area at the fair market value. If the local government does not want the property, it is sold to the highest bidder.

Proceeds from the sale go to either the state's general revenues or to the agency that owned the property, depending on whether the agency is a general fund or a special fund agency. (As a result, general fund agencies are reluctant to declare land surplus.) Disposal of general fund properties is handled by the DEP, while disposal of special fund properties is typically handled by the agency that owns the property.

Construction Projects. If an agency wishes to have a new building constructed it must go through the DPB which prepares the capital budget for the legislature. The DEB reviews all capital project proposals to provide the DPB with advice on how sound the proposal is from a real estate perspective. If undertaken, the DEB will oversee the development of the project.

NEW YORK

The management of New York state's real property is handled by several groups within the Office of General Services. Most real estate management functions are the responsibility of the Real Property, Planning and Utilization Group, which is further divided into the Division of Land Utilization and the Division of Space Procurement and Allocation. Additionally, the Design and Construction Group oversees all construction projects and the Facilities Operation Group manages all state-owned office and storage space.

MANAGEMENT OF OFFICE SPACE

Space Allocation. When an agency requires additional office space it submits a request both to the Division of the Budget[1] and to the Bureau of Space Planning and Allocation (BSPA), which is within the Space Procurement and Allocation Division of OGS. The Division of the Budget reviews the request to ensure that it is in keeping with the agency's budget allocation. BSPA reviews the request to determine whether the agency is justified in seeking additional space. If the space need is justified, BSPA will review the current inventory of available state-owned office space. In attempting to meet the agency's needs BSPA will consider relocating other agencies to make the most efficient use of state office space.

Leasing of Office Space. If no state-owned space is available, BSPA will refer the request to the Bureau of Leases (BL), which is also within the Space Procurement and Allocation Division. BL will work with the agency to develop the criteria to be used to identify suitable space for leasing. (The criteria typically include: size, geographic location, access to public transportation, parking, storage space, etc.) In most cases leased space is not identified by a competitive bid process. Instead, BL will rely on an inventory of available office space around the state which it maintains as well as the leasing agents' personal knowledge of the market. A competitive bid

[1]The Division of the Budget is an executive agency parallel to the Office of General Services.

process may be used, for example, if a large amount of space is and it is felt that a bid process will lead to a better deal for the state.

Maintenance. Maintenance of state-owned office space is the responsibility of the Facilities Operation Group within OGS. Maintenance of leased space is typically the responsibility of the landlord of the property.

DEVELOPMENT FUNCTIONS

Disposition of Surplus Property. The Division of Land Utilization (DLU) is responsible for the management, acquisition and disposition of state lands. There are, however, a number of state agencies that are authorized to assume these responsibilities for their own property, including the Department of Conservation, the Port Authority of New York and New Jersey, the Department of Corrections, Department of Parks and Recreation, the Department of Mental Health and the state's universities.

Surplus property usually comes to DLU's attention in the course of its normal dealings with agencies either regarding the management of their land or as a result of requests for acquisition of property. Another way in which DLU becomes aware of surplus property is as a result of its biannual survey of property owned by state agencies. While the Secretary of OGS has the authority to declare land surplus, agencies are generally not reluctant to part with unused property because of the costs associated with their management.

When property is found to be surplus it is first made available to other state agencies that may have a use for it. If the land is not needed by the state, the local government will be contacted to see if they have a use for the land. Then, if the local government is not interested in acquiring the property, DLU will determine if there are any other quasi-public uses for the property, such as affordable housing or economic development. Finally, after all public options have been explored, the property will be either sold or leased to the private sector. (It is becoming quite common for DLU to provide long-term ground leases to private sector users rather than selling the property outright. This practice is particularly common in high density areas where land is scarce.)

The proceeds from land disposition do not go into general revenues, but rather into a variety of accounts related to real property management. (Since the Real Property, Planning and Utilization group is required by law to "earn its keep" to some extent, the proceeds are credited to this group.) In some cases the type of property that is being disposed of will determine which account is credited. For example, proceeds from the sale of land held by the Department of Conservation will usually go into a forest preserve fund. In no instance, however, are the proceeds returned to the agency that held the property.

Construction Projects. New construction projects will be proposed either by an agency or BSPA. In either case, the Division of the Budget reviews the request and decides whether or not it should be included in the Governor's budget proposal. If the proposed project is included in the budget, it then must be approved by the legislature. Once a decision to undertake a construction project is made, their design and construction is overseen by the Design and Construction Group within OGS. The agency that the building is being constructed for (either the BSPA or a specific agency) will also oversee the interior design and construction of the building.

A new section within the Space Procurement and Allocation Division, the Bureau of Planning Coordination is planned to oversee projects built by the private sector for lease to the state. This bureau will be responsible for inspecting these properties to ensure that they meet agreed upon design specifications.

TEXAS

The management of office space for state agencies in Texas is handled by the Facilities Construction and Space Management Division (FCSMD) of the State Purchasing Commission, which reports to the Governor. The management of state lands is the responsibility of the General Land Office which is headed by an elected official and is largely independent of the Governor.

MANAGEMENT OF OFFICE SPACE

Space Allocation. The allocation of state-owned office space is handled by the Space Management Section of the FCSMD. When an agency needs additional space it submits a description of its space needs to this section which determines if any state-owned space is available. The Space Management Section maintains an inventory of the current use of state-owned offices in order to respond to these requests.

Leasing of Office Space. Since state-owned office space is usually being fully utilized, most requests for additional space are met through the leasing of privately-owned space. Requests for leased space are handled by the Facilities Leasing Section (FLS) of the FCSMD, which is a relatively small section consisting of 10 employees. The agency requesting space submits a description of its space needs (the number of rooms, their size and their use) along with a certification that they have the funds to pay for the lease. FLS then reviews the description the needed space to insure that the requested amount of space is in line with the described use of the space (i.e., a secretarial station should occupy roughly 75 square feet, not 200). FLS prepares a request for proposals for the space based on the agency's description and its budget. FLS maintains a list of office space suppliers around the state to whom these RFP's are sent. Additionally, the state's space need is advertised in local newspapers.

Once the bids are received FLS reviews them to ensure that they meet the required specifications. The lowest bid is then selected and the requesting agency is notified. The agency is responsible for contacting the lessor and inspecting the property. If the property is satisfactory the leasing agency notifies FLS which then prepares and executes the leasing documents. If the property needs to be modified in order to meet the specifications, it is the responsibility of the agency to see that these improvements are satisfactorily done.

If, however, the agency is dissatisfied with the selected property (for example, either because it does not meet its specifications or it is of poor quality) it must submit documentation supporting its claim. If FLS agrees that the property is not suitable the agency is authorized to review the second lowest bid. An FLS representative estimated that agencies are dissatisfied with the low-bid roughly 25% of the time. It is not unusual for FLS to disagree with the agency. In the case of such disagreements the decision is usually reached by agreement between the State Purchasing Commission Director and the agency head.

Maintenance. The physical maintenance of state-owned buildings is the responsibility of the Buildings and Property Services Section.

DEVELOPMENT FUNCTIONS

Disposition of Surplus Property. The management of state land is handled by the General Land Office (GLO). The GLO manages four programs: 1) The Permanent School Fund; 2) the Capital Trust Fund; 3) the Energy Division; and 4) the Veteran's Land Program.

The Permanent School Fund was originally endowed (apparently at the time that Texas became a state) with 42 million acres of land. This fund was designed to provide income for the public school system.[1] Most of the land in this fund was sold in the first half of the century and the proceeds invested. However, there are still 800,000 acres of land in the fund which are managed by the Asset Division of the GLO. While some of this land consists of oil and gas fields, much of it is unproductive land in arid west Texas. The GLO is attempting to upgrade the land assets in the fund by piecing together large blocks of land for sale[2] and

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[1] At the time the Permanent School Fund was established several other funds were endowed with land grants (although consisting of much smaller allotments - about 2 million acres on average). Of these funds the only large one remaining is the University Fund which is owned by the Texas University system. Very little of the original 2 million acres in this fund have been sold. The land is largely concentrated in the oil producing area of the state and the University essentially relies on the income produced by its oil and gas reserves.

[2] The blocking of land consists of purchasing privately-held land for packaging with contiguous state-owned land to increase the value of small parcels.

then purchasing either income producing properties (such as ranches) or environmentally important land (such as barrier islands). The GLO is also beginning to explore commercial development of its properties.

The Energy Division manages the mineral assets of the Permanent School Fund. In addition to the 800,000 acres of land, the fund retained the mineral rights to 7 million acres of its land that was sold earlier in the century. This division manages these properties.

The Veteran's Land program provides financing for veteran's to purchase land and homes and to renovate properties.

The Capital Trust Fund was established by the Texas Legislature in 1985. This legislation requires the GLO to systematically appraise and evaluate the use of all state lands. By September 1988 the GLO must establish a market value for all lands owned by state agencies. By September 1989 the GLO is to determine with regard to each property whether it is being used efficiently, and if not whether it should be transferred to another state entity or privately developed. All proceeds from the sale or lease of state property is to be devoted to the Capital Trust Fund. These funds are not earmarked for any particular purpose, so they can be appropriated by the legislature for any purpose. There is, however, a debate within the government regarding whether the this trust fund should be used exclusively for capital investments. At present it appears that this view is prevailing.

The impetus for this legislation was the discovery that a large parcel of very valuable land in the city of Austin (market value of about $60 million) was being used by the Department of Mental Health as a summer camp. At the same time the state was searching for new revenue sources as the collapse of the oil and gas industry had drastically reduced state tax revenues. The legislature believed that active management of the state's property could be a good source of revenue. The legislation also required the GLO to sell two parcels of land (including the Austin property and a parcel of land in Houston). However, because of the depressed real estate market in Texas it was not a good time to sell these assets. Instead, they were transferred to the Department of Transportation in exchange for funds to develop needed prisons and mental health facilities.

As the GLO has began planning the disposal of surplus property several problems emerged with regard to zoning. For the state restrictive local zoning ordinances have been troublesome because they limit the market value of the land. Local governments, on the other hand, have been troubled by the state's use of long-term leases because state-owned land is not subject to zoning and so development could occur without local control. In the past legislative session a bill was passed which allows local governments to have zoning control over state-owned land, although a board consisting of state and local representatives has the power to override the local zoning board. It is anticipated that these local boards will not actually function, but that their existence will provide an incentive for local governments not to be overly restrictive in their zoning practices.

Construction Projects. Construction of new state buildings is overseen by the Project Management Section of the FCSMD. This section is being reorganized with the goal of more actively managing the state's space needs. Previously all requests for construction of new facilities would originate from a state agency. The PMS would prepare a project analysis based on this request which served to establish an estimated construction cost for comparison with the current cost of leasing space for that agency. The PMS did not attempt to evaluate whether in fact the new space was needed. The legislature would use evaluate the need for the space and use the project analysis to decide whether the project should be funded. The PMS is beginning to institute a more rigorous analysis of alternative methods of meeting the agency's space needs which includes a comparison of the costs of long-term leasing, building or buying and renovating an existing building. Additionally, the PMS is in the process of establishing a method of evaluating the justification for the project in order to aid the legislature in evaluating the need for the new development.

Another aspect of the reorganization is that the Space Management Section (SMS) of FCSMD is now required to prepare a biannual report for the legislature which estimates the state's need for additional facilities based on a survey of all state agencies. This survey will allow FCSMD to plan the most cost-effective way of meeting the state's future space needs rather than simply responding to individual requests for space as they arise.