Recommendations

Recommendation 1. The General Assembly should direct the Department of Administration (DOA) to actively manage the State's portfolio of real property and modify state law to ensure the department is complying with this mandate.

The findings in this report demonstrate DOA does not follow real property portfolio management practices and does not have a process to systematically identify and dispose of unneeded or underutilized property. As a result, the General Assembly should

- direct DOA to develop and implement a statewide strategic facilities plan and performance management system for the State's portfolio of real property;
- require DOA to establish baseline utilization data by developing procedures for measuring utilization and collecting utilization data on all leased and owned buildings and structures;
- direct DOA to work in consultation and coordination with state agencies to draft rules defining surplus real property and develop a system to continuously identify and dispose of real state property deemed surplus; and
- amend state law to improve oversight and reporting of the State's portfolio of real property.

The General Assembly should direct DOA to develop and implement a statewide strategic facilities plan and a performance management system for the State's portfolio of real property. A strategic facilities plan (SFP) is a plan encompassing the entire portfolio of owned and leased real property and sets strategic facilities goals based on strategic objectives. The SFP should be based on agency-level facility management plans (see Recommendation 3) and should

- identify the type, quantity, and location of spaces required to fully support state government operations,
- include an in-depth analysis of existing facilities' locations, capabilities, utilization, and condition, and
- establish statewide strategic priorities and objectives.

DOA should be required to develop an SFP every five years. The initial SFP should be reported to the Joint Legislative Commission on Governmental Operations and the Fiscal Research Division of the General Assembly no later than December 1, 2017.

Further, DOA should be directed to establish a formalized performance management system to measure the State's achievement of the strategic priorities set forth by the SFP. The system should establish measurable goals associated with each objective related to the SFP. The goals should

- set targets and deadlines, and
- focus on optimization and efficiency of the State's portfolio of real property.

The General Assembly should require DOA to develop a standardized procedure for measuring utilization of buildings and structures. This report establishes the importance of real property utilization for monitoring portfolio performance and identifying unused and underutilized properties.

Currently, however, utilization of real property is not tracked, measured, or analyzed by the department. Proper utilization management requires a standardized method for measurement and the collection of baseline utilization data.

Procedures for utilization measurement should be based on the percentage of usable square feet assigned, storage used, or other trade industry standards for the various types and uses of leased and owned space and should provide a ratio or index of used and unused space. DOA should be directed to

- establish utilization standards for each asset type,
- work with state agencies to adopt or modify existing utilization measurement standards,
- develop and test the methodology for its procedure to measure utilization of real property, and
- distribute this procedure to state agencies and institutions no later than December 1, 2015.

To establish a baseline of utilization data, the General Assembly should direct DOA to develop and implement a plan to analyze the utilization of all state-owned or leased buildings and structures. The plan should outline a process for

- conducting unannounced visits on a random sample of real property owned by, allocated to, or leased by each state agency in order to measure utilization,
- developing standards for measuring utilization of each asset type,
- providing guidance and training to agencies and institutions on measuring property utilization, and
- directing agencies to submit utilization data to DOA.

The Department of Administration should report on the details of the plan to the Joint Legislative Commission on Governmental Operations and to the Program Evaluation Division of the General Assembly no later than June 1, 2016.

Implementation of the plan should be carried out in two phases. The first phase would require DOA to conduct unannounced visits on a random sample of real property owned by, allocated to, or leased by each state agency in order to measure utilization and provide guidance and training to agencies and institutions on measuring property utilization. This training period should be used to hone the utilization measurement process. The random sample should be stratified to include every agency. DOA should be required to provide training and guidance to agency and institution staff to measure utilization of various types of buildings and structures.

The second phase would require agencies and institutions to measure utilization of each piece of real property they own, have been allocated, or lease, and submit that utilization data to DOA. To ensure the accuracy of the data submitted by each agency, DOA should be required to perform audits on the utilization measurements provided by each agency and institution. DOA should be required to report any agency or institution that fails to comply with the requirement to measure property utilization to the Chair of the Joint Legislative Program Evaluation Oversight Committee. Establishing the baseline inventory of utilization data for each piece of real property owned by, allocated to, or leased by each state agency and institution should be completed no later than July 1, 2017. In the interim DOA should be required to report quarterly to the Joint Legislative Commission on Governmental Operations and to the Program Evaluation Division of the General Assembly on the development and implementation of the utilization measurement plan.

The General Assembly should direct DOA, working in consultation and coordination with state agencies, to draft rules defining surplus real property and develop a system to continuously identify and dispose of real state property deemed surplus. The definition should include consideration of the following criteria:

- **Mission dependency**: the value an asset brings to the performance of the mission and the fulfillment of its goals and objectives.
- **Condition index**: a general measure of constructed asset condition calculated as a ratio of repair needs to plant replacement value.
- **Utilization**: the degree to which owned and leased space is being used.

To ensure the State minimizes the retention of unused and underutilized real property, the General Assembly should direct DOA to develop and implement a system for real property disposition that will continuously identify state-owned surplus real property based on the definition established in administrative code, evaluate each surplus property based on the criteria for disposal, and dispose of that property as appropriate. Criteria for disposal should include but not be limited to:

- mission dependency,
- utilization,
- condition of the property,
- extent to which it meets the purpose for which it was intended,
- future needs of the agency to perform the service intended at the location, and
- consideration of the best and most cost-effective manner in which these future needs can be serviced.

Disposal of the property should be modeled after the federal process which is intended to limit the amount of time surplus real property is retained. A report outlining this system and the status of the rule-making process for defining surplus real property should be delivered to the Joint Legislative Commission on Governmental Operations and to the Program Evaluation Division by December 1, 2016.

To ensure DOA is actively managing the State's portfolio of real property, the General Assembly should amend state law to expand DOA's real property reporting requirements. Given DOA's current reporting requirements address less than 1% of the total value of the State's entire portfolio of real property, the General Assembly should amend N.C. Gen. Stat. § 143-341.(4).d1 to mandate more detailed reporting. DOA should be required to publish an annual report on its portfolio of real property. This report should include but not be limited to providing the following information:

- updates and progress on goals and objectives established by the strategic facilities plan,
- trends in the real property inventory for leased and owned buildings and structures, including changes in value, square footage, and operation and maintenance costs,
- trends in the inventory for state-owned land including changes in acreage and value,
- allocation of leased and owned space by facility type by agency and county,
- benchmarks for comparable private sector leases across the regions of the State for both rural and urban locations, and
- an analysis of utilization targets and a list of owned and leased buildings and structures identified as unused or underutilized.

This annual report should be delivered to the Joint Legislative Commission on Governmental Operations and to the Program Evaluation Division no later than December 1 of each calendar year beginning in 2018.

This recommendation codifies and formalizes DOA's responsibilities and duties related to the control and management of the State's portfolio of real property. Given that models for outsourcing acquisition transactions exist in other states, DOA could explore this opportunity to free up existing personnel to focus on managing the State's portfolio. As a result, the Program Evaluation Division does not recommend additional personnel or resources to meet these duties and responsibilities.

Recommendation 2. The General Assembly should direct the Department of Administration to modify the State's inventory database of real property to ensure its completeness, accuracy, and security. As discussed in Finding 1, the State's inventory of real property does not currently allow for the tracking of critical information for identifying unused, underutilized, and unneeded property. In addition, this report found that discrepancies in the database of state property and insufficient access controls jeopardize its completeness, accuracy, and security (Finding 4).

The General Assembly should direct the Department of Administration (DOA) to modify the database to include the following data elements:

- location (including the latitude and longitude of the center of the building or parcel of real property),
- mission dependency,
- condition,
- estimated cost of repair and renovation,
- annual operating and maintenance costs,
- number of usable workspaces,
- number of full-time equivalent positons assigned the site and,
- utilization.

Furthermore, DOA should define each element and develop procedures for collecting these data to ensure consistency statewide.

The inclusion of these data elements in the inventory database would provide the necessary information to manage the State's portfolio of assets and identify properties for disposal. In addition, utilizing the filing number from the Secretary of State will improve the ability to reconcile electronic inventory records with physical deeds on file.

To improve the security of the State's inventory of real property, the General Assembly should direct DOA to comply with statewide policies and procedures for information security. DOA should be directed to use the North Carolina Identity Management (NCID) service for access to the real property database. DOA should be required to report on the changes made to improve the completeness, accuracy, and security of the inventory database to the Joint Legislative Commission on Governmental Operations and to the Program Evaluation Division by December 1, 2015.

Recommendation 3. The General Assembly should require all state agencies to collect, track, and report data on state-owned and leased space they occupy and maintain a current facilities management plan.

This report identified deficiencies related to the accuracy and completeness of the State's inventory of real property due to the lack of reconciliation between Department of Administration (DOA) and agency records and the lack of required reporting by agencies. Requiring agency compliance in collecting, tracking, reconciling, and reporting data on the assets under their control will assist DOA in maintaining a complete and accurate inventory and ensure effective portfolio management.

To ensure DOA is able to effectively manage the State's real property portfolio, the General Assembly should require all state agencies to collect and track the data that provides information on the performance of each asset under the agency's control. All state agencies owning state land or occupying space in state-owned or leased buildings should collect the information specified in Recommendation 2 and report this data to DOA on an annual basis.[50] The General Assembly should require each agency to ensure the accuracy and completeness of the data by

- performing an annual reconciliation of its records against the State's inventory to identify discrepancies,
- reporting any discrepancies found to DOA, and
- submitting these data for review and certification by the Office of the State Auditor.

In addition, the General Assembly should allow the State Auditor to charge the State Land Fund for any costs incurred to conduct the review and certification of agency data submitted to DOA.[51]

[50] These data are as follows: location, mission dependency, condition, estimated cost of repair and renovation, annual operating and maintenance costs, number of usable workspaces, number of full-time equivalent positions assigned to the site, and utilization.
[51] As of May 28, 2015 the State Land Fund had an estimated balance of $1,802,360.

Lastly, the General Assembly should require each agency and institution to develop a five-year property management plan and submit it to DOA for review. Property management plans should

- identify the type, quantity, and location of spaces required to fully support agency operations,
- include an in-depth analysis of existing facilities' locations, capabilities, utilization, and condition, and
- establish agency-specific strategic priorities and objectives for each asset under its control.

Annual reporting for inventory data and for the reconciliation process should begin no later than July 1, 2017. Agencies should complete and submit their initial five-year property management plans by the same date.

Recommendation 4. The General Assembly should direct the Department of Administration to dispose of the unused, unneeded, and underutilized property identified in this report.

From a limited sample, the Program Evaluation Division identified 16 properties that could generate an estimated $14.3 million in one-time state revenue if sold. These properties are allocated to three state agencies—the Department of Administration, Department of Agriculture and Consumer Services (DACS), and Department of Public Safety (DPS). Exhibit 13 shows how the General Assembly should direct DOA to dispose of each property.

The sale of the 16 properties allocated to DOA and DACS should be initiated within 60 days of this recommendation becoming law. The sale of the DPS property should be initiated within 90 days of this recommendation becoming law to allow time for DPS to relocate existing functions. The General Assembly should direct DPS to shift operations from the Highway 70 property in Garner to the properties identified in Exhibit 7 of this report. To effectuate this move, DOA should be required to allocate any space necessary to accommodate the DPS consolidation. This move should be executed within 60 days of this recommendation becoming law.

State law allows for the State Land Fund to pay for expenses associated with disposing of these properties. Further, all properties should be marketed through a multiple listing services number when listed for sale.

Lastly, the General Assembly should enact a special provision to allow up to 25% of the net proceeds from the sale of the properties identified in this report to be retained by DOA, DACS, and DPS for real property restoration and renovation.[52, 53]

[52] § 146-30.(a)(2)a. allows the state agency to which the property was allocated to retain 25% of the net proceeds if the appraised value does not exceed six million dollars. This provision is effective until January 1, 2016.
[53] § 146-30.(a)(c) allows the net proceeds derived from the sale of land or timber from land owned by or under the supervision and control of the Department of Agriculture and Consumer Services shall be deposited with the State Treasurer in a capital improvement account to the credit of the Department of Agriculture and Consumer Services, to be used for such specific capital improvement projects or other purposes as are provided by transfer of funds from those accounts in the Capital Improvement Appropriations Act.

Exhibit 13: The General Assembly Should Direct the Department of Administration to Dispose of the Following Unused, Unneeded, and Underutilized Properties

Property Name	Location	Total Size	Estimated One-Time Revenue	Estimated Annual Local Tax Proceeds	Recommended Method of Disposal	Estimated Appraisal Cost
Department of Administration						
Ashley House	219 E. North St. Raleigh	3,352 square feet	$ 585,122	$ 5,765	Dispose	$ 1,750
Howell House	111 E. North St. Raleigh	2,814 square feet	1,623,643	15,961	Dispose	1,750
Heck-Andrews House	309 N. Blount St. Raleigh	4,834 square feet	947,748	9,325	Dispose	1,750
Andrews-Duncan House	407 N. Blount St. Raleigh	4,798 square feet	1,573,196	15,466	Dispose	1,750
McGhee House	411 N. Blount St. Raleigh	2,315 square feet	Not applicable	-	Demolish and Dispose	1,750
Coble Helms House	417 N. Blount St. Raleigh	2,776 square feet	803,205	7,907	Dispose	1,750
Heartt House and Storage	421 N. Blount St. Raleigh	5,416 square feet	3,850,427	37,823	Dispose	1,750
Gay House	419 N. Person St. Raleigh	2,025 square feet	347,992	3,437	Dispose	1,750
Worth House	415 N. Person St. Raleigh	1,530 square feet	118,845	1,187	Dispose	1,750
Watson House	411 N. Person St. Raleigh	1,606 square feet	398,065	3,928	Dispose	1,750
Cambridge House	407 N. Person St. Raleigh	2,496 square feet	393,916	3,887	Dispose	1,750
Lamar House	401 N. Person St. Raleigh	3,416 square feet	422,956	4,173	Dispose	1,750
Department of Agriculture and Consumer Services (DACS)						
Animal Diagnostic Lab	324 Yellow Cut Road Rose Hill	5,125 square feet	687,400	5,018	Dispose	3,000
Gas and Calibration Station	2201 Burnett Blvd. Wilmington	513 square feet	Not applicable	Not applicable	Reallocate	1,500
Livestock Show and Sale Facility	Bristol Road Statesville	46.25 acres	943,500	5,236	Dispose	3,000
Piedmont Triad Farmers Market	8254 Tyner Rd. Greensboro	6.36 acres	190,000	2,665	Dispose	2,000
Department of Justice and Public Safety (DPS)						
Oil Dock, Fabrication, Storage Facility	225 U.S. 70 Garner	10,326 square feet	1,418,559	16,458	Dispose	3,500
Total			**$14,304,574**	**$ 138,236**		**$ 34,000**

Note: Total assessed values and estimated local tax proceeds only include those identified for disposal and exclude two properties. First, the McGhee House should be demolished and marked for disposal, thus its assessed value and estimated local tax proceeds are not reliable indicators of receipts. Hence, its land proceeds are included in the Heartt House and Storage property which it adjoins. Second, the Gas and Calibration Station should be reallocated to the State Ports Authority because it has maintained the property for some time, and remediation estimated at $25,000 would be required if the property was offered for private sale. Estimated appraisal costs would be paid from the State Land Fund, and thus would not affect one-time savings calculations.

Sources: Program Evaluation Division based on site visits and the Department of Administration database of state property. Assessed values are based on information from the Duplin, Iredell, Guilford, and Wake County tax departments.

Recommendation 5. The General Assembly should direct DOA to review requests to acquire new or renew existing leased space to determine whether suitable state-owned space exists to meet lease requirements. This report identifies seven leases set to expire within one year of July 1, 2015. These lease requirements can be accommodated by available space in state-owned buildings. Prior to renegotiation or renewal of these seven leases, DOA should be directed to identify and allocate suitable unused state-owned space to accommodate the leased space requirements. DOA should be required to report to Joint Legislative Program Evaluation Oversight Committee if any of the seven leases are unable to be accommodated by state-owned space.

In addition, the General Assembly should direct DOA to take the following measures for all future leases:

- **Leasing between July 1, 2015 and July 1, 2017.** Because comprehensive utilization data will not be compiled until July 1, 2017, DOA should require all agencies and institutions to document and certify they have searched existing real property holdings and contacted other state agencies to identify existing unused office and storage space prior to requesting acquisition of new leases or lease renewals.
- **Leasing after July 1, 2017.** DOA should analyze each lease against property utilization data to identify any unused state-owned space that could accommodate lease requirements. If suitable space is found, DOA should be directed to enforce the provisions set forth in state law which require all state departments, institutions, and agencies to use state-owned office space instead of negotiating or renegotiating leases for rental of office space. [54]

[54] N.C. Gen. Stat. § 143-341.(d1).