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

**Final Report to the Joint Legislative Program Evaluation Oversight Committee**

**Report Number 2015-04**

**June 22, 2015**

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June 22, 2015

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Representative Craig Horn, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

The 2013–15 Program Evaluation Division work plan directed the division to examine the efficiency and effectiveness of the legal and administrative process for identifying and disposing of unused, underutilized, or surplus real property owned and maintained by state agencies and universities.

I am pleased to report that the Department of Administration cooperated with us fully and was at all times courteous to our evaluators during the evaluation.

Sincerely,

John W. Turcotte
Director

PROGRAM EVALUATION DIVISION
NORTH CAROLINA GENERAL ASSEMBLY

June 2015 Report No. 2015-04

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

## Summary

North Carolina's Department of Administration (DOA) is responsible for managing the State's portfolio of real property, which consists of nearly $26 billion in state-owned buildings, $1.6 billion in state-owned land, and $65 million in annual expenditures for leased space. Within DOA, the State Property Office (SPO) is charged with management of the State's portfolio including identifying and disposing of unused, underutilized, or surplus assets.

**The State retains interest in unneeded real property that could generate an estimated $14.3 million in one-time revenue and provide an additional $2.6 million in future cost avoidance.** From a sample of 49 state-owned and leased properties, the Program Evaluation Division identified 17 vacant properties and underutilized properties for disposal. In addition, opportunities exist to increase utilization of state-owned space that could result in $2.6 million in future cost avoidance.

**The State lacks a systematic process and data to identify unused and underutilized real property.** There is no formal process to identify unused and underutilized property; DOA relies on agencies to voluntarily and periodically identify properties no longer serving a programmatic need. Furthermore, utilization and other critical property performance data are not tracked by DOA, preventing decision makers from knowing which real property assets continue to meet programmatic needs. In addition, the state property database is inaccurate and unsecure.

**DOA has not implemented portfolio management practices.** As a result, the State cannot identify the type, quantity, and location of spaces required to fully support organizations. A more robust approach to reporting would promote accountability and active management of the State's portfolio of real property.

**To address these deficiencies, the General Assembly should modify state law and direct DOA to:**

- comprehensively manage the State's portfolio of real property through more robust planning, performance management, and oversight reporting;
- modify the State's inventory of real property to improve its completeness, accuracy, and security;
- dispose of 17 unneeded properties identified in this report; and
- review requests to acquire new or renew existing leased space to determine if suitable state-owned space can meet lease requirements.

The General Assembly should also modify state law and 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.

## Purpose and Scope

The Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to examine the efficiency and effectiveness of the legal and administrative process for identifying and disposing of unused, underutilized, or surplus real property owned and maintained by state agencies and universities.

For the purposes of this evaluation, real property is defined as owned or leased

- land;
- buildings, warehouses, storage or other structures; and
- space in buildings.[1]

This evaluation addressed the following research questions:

- What is the State's process for identifying, managing, and disposing of unused, underutilized, and surplus property, and how effective is the process?
- What are best practices in identifying, managing, and disposing of unused, underutilized, and surplus property?
- What legal or administrative changes are needed to efficiently and effectively allocate and dispose of unused, underutilized, or surplus real property leased or owned by the State?

To conduct this review, the Program Evaluation Division analyzed information from numerous sources including

- the database of state real property held by the Department of Administration and the Department of Insurance;
- interviews and queries of agency officials at the Department of Administration, the Department of Insurance, the Department of the Secretary of State, and the Office of State Controller;
- a survey of state agencies managing real property;
- a review of laws and rules on the acquisition, disposition, and management of real property;
- a review of real property management duties and responsibilities in other states;
- an interview with the Georgia State Properties Commission;
- site visits to 49 state-owned properties and owned or leased office spaces;
- deeds for state-owned property deposited with the Secretary of State; and
- reviews of county records of state-owned property from tax assessor and register of deeds offices in five counties.[2]

[1] This evaluation excludes right-of-ways owned and managed by the Department of Transportation.
[2] The five counties were Cumberland, Durham, Forsyth, Guilford, and Wake.

# Background

**North Carolina has a diverse portfolio of real property assets. Taken together, the State owns more than 870,000 acres of land and more than 13,000 buildings and structures and manages more than 97 million square feet of owned and leased space.** As shown in Exhibit 1, the State owns land and buildings in all 100 counties and leases office and warehouse space in 78 counties. Exhibit 2 displays the distribution of real property assets by county.

North Carolina's real property assets are diverse and include

- the Holly Shelter Bay Game Land in Pender County, a 74,316-acre space used for public hunting and hiking,
- the Blackburn Vannoy Farm, a 369-acre farm used by Appalachian State University that includes two 1880s farm houses and a 1960s brick ranch-style home; and
- 20,609 square feet of leased office space at 5501 Executive Office Drive in Charlotte for programs within the Departments of Health and Human Services and Public Instruction.[3]

In addition, North Carolina leases office space outside of the state and in other countries. Detailed information on real property assets for each agency can be found in Appendix A, B, and C.

## Exhibit 1

### Summary of Real Property Assets Owned and Leased by the State of North Carolina

| Asset Type | Total Assets | Total Size | Value | Number of Counties |
|---|---|---|---|---|
| Land | 9,146 | 880,418 acres | $1.6 billion | 100 |
| Buildings | 11,937 | 92,466,238 square feet | $26 billion | 100 |
| Structures | 1,598 | Not calculated | Not calculated | 96 |
| Leases | 758 | 4,846,496 square feet | $65 million | 83 |

Notes: Asset counts for land and buildings are current as of December 16, 2014. Asset counts for structures are current as of November 17, 2014. Asset counts for leased space are current as of January 14, 2015. The State Property Office database does not calculate a size for state-owned structures. The estimated value for land assets is the sum of acquisition costs.[4]

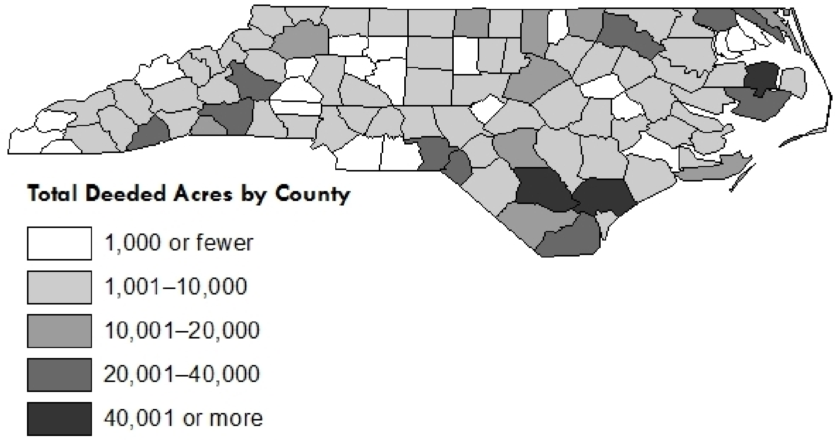
Source: *Program Evaluation Division based on data from the State Property Office database.*

[3] The programs are Communicable Disease Branch, HIV/STD Preparedness and Response, Mental Health, Vocational Rehabilitation Assistive Technology, and Vocational Rehabilitation Independent Living within the Department of Health and Human Services and the Office of Educational Services within the Department of Public Instruction.

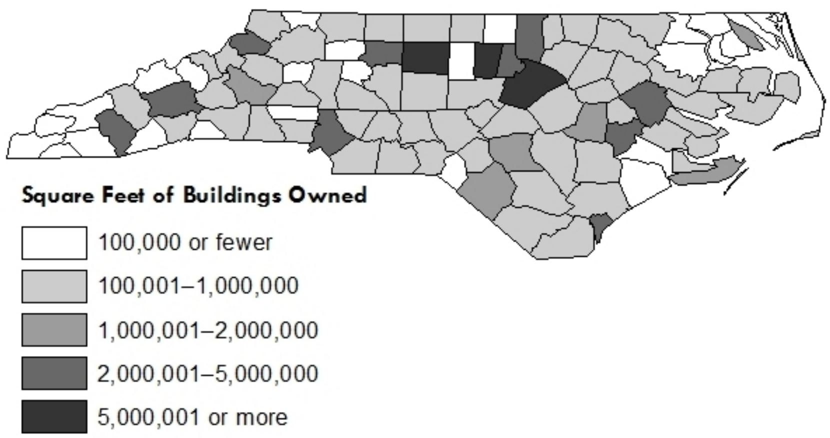
[4] The Department of Insurance insures all state-owned buildings and provides insurance for the contents within leased spaces (e.g., office equipment and furniture). In Fiscal Year 2013–14, the total insured value for buildings and leases was $36 billion—$28 billion for state-owned buildings and $8 billion for leased space. Total annual rent for leased space is $65 million.

# Exhibit 2: Distribution of North Carolina's Real Property Assets by County

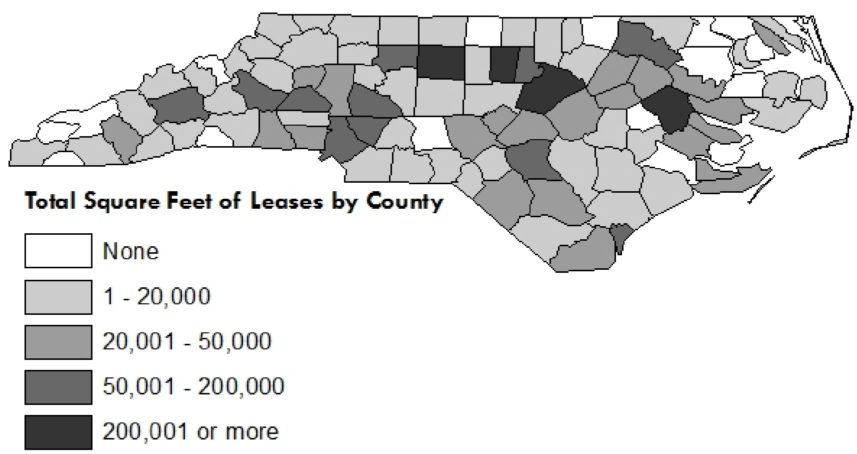
**Land – Total Acres by County**




**Buildings – Total Square Feet by County**




**Leased Space – Total Square Feet by County**




Note: Ranges reflect separation of totals into quintiles.

*Source: Program Evaluation Division based on the State's inventory of real property.*

**State law grants authority to the Department of Administration to acquire, dispose of, and manage state-owned property and leases on behalf of state agencies.**[5] As part of its broad duty and powers over real property control, the Department of Administration (DOA) has several enumerated duties, including

- to prepare and keep current a complete and accurate inventory of all land and buildings owned or leased by the State or by any state agency;
- to acquire, whether by purchase, exercise of the power of eminent domain, lease, or rental, all land, buildings, and space in buildings for all state agencies, subject to the approval of the Governor and Council of State in each instance;
- to make all sales of real property owned by the State or by any state agency, with the approval of the Governor and Council of State in each instance;
- to require all state departments, institutions, and agencies to use state-owned office space instead of negotiating or renegotiating leases for rental of office space;
- to allocate and reallocate land, buildings, and space in buildings to the several state agencies, in accordance with rules adopted by the Governor with the approval of the Council of State; and
- to require any state agency to make reports regarding the land and buildings owned by it or allocated to it at such times and in such form as the department may deem necessary.

Within the department, the State Property Office (SPO) is responsible for managing real estate assets. As shown in Exhibit 3, SPO has three sections; the duties of each section are described below.

- **Real Property.** This section manages acquisition and disposal of state real estate assets, including land acquired for compensatory mitigation through the Ecosystem Enhancement Program.[6]

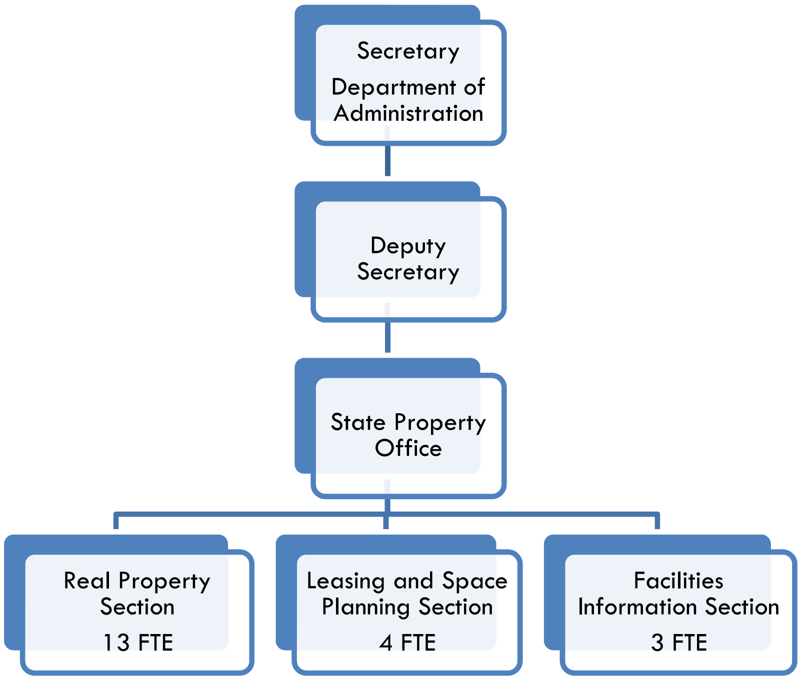
- **Lease and Space Planning**. This section fulfills agency needs for leased office and warehouse space. The lease and space planning section reviews and approves agency needs for space for leases between $5,000 and $25,000 in annual rent or for fewer than three years. For leases over 3 years or greater than $25,000 in annual rent, the section advertises requests for leased space on behalf of agencies, and recommends leases to the Council of State for final approval.[7]

- **Facilities Information**. This section manages all land, building, and lease records for the State and maintains floor plans of each building, maps, and site plans associated with the State's land holdings. Also, this unit maintains an inventory database and geographical information system of state real property.

[5] N.C. Gen. Stat. § 143-341(4).
[6] The Department of Environment and Natural Resources's Ecosystem Enhancement Program defines compensatory mitigation as any mitigation action, required by permit, taken to compensate for stream and/or wetland impacts associated with a development project.
[7] Agencies have been delegated authority to enter into lease agreements for space if the annual rent is less than $5,000 or if the lease terms are less than 3 years.

Although the office has statewide responsibility and control over real estate assets, the day-to-day operations of real property occur at the agency level. Furthermore, state law exempts certain agencies and types of assets from the authority of DOA.[8]

## Exhibit 3: The State Property Office Manages North Carolina's Real Estate Assets




Notes: FTE stands for full-time equivalent staff. The Real Property section includes four FTE that manage property for North Carolina's Ecosystem Enhancement Program.

*Source: Program Evaluation Division based on information from the Department of Administration.*

**Real property disposition is the process of identifying and then transferring, donating, or selling unneeded assets.** Disposition is an important asset management function because the costs of maintaining unneeded properties can be substantial. Disposal of assets to local governments, nonprofit organizations, and businesses may also lead to previously underutilized properties being used for another public purpose or contributing to economic development.

An asset should be designated as surplus property—and redeployed, demolished, or replaced—when it no longer meets an agency need. The decision to dispose of an asset is best made when it is based on an in-depth strategic portfolio review that considers several factors, including

- market availability,
- supply and demand,
- property performance,
- physical conditions, and
- future mission needs.

[8] Exempted agencies include the NC Global TransPark Authority, endowment funds of UNC constituent institutions, UNC Health Care System, Medical Faculty Practice Plan at East Carolina University, NC State Ports Authority, NC State Bar, NC community colleges, NC Agricultural Finance Agency, NC Medical Care Commission, NC Capital Facilities Finance Agency, Clean Water Management Trust Fund and highway right-of-ways acquired by the Board of Transportation or the North Carolina Turnpike Authority.

Retaining space that can be designated as surplus can result in several negative consequences, such as

- lost value, because the property does not contribute to the State's mission or strategic goals;
- negative impact on local economies, tax revenues, and employment;
- increased operating costs;
- drain on limited agency resources; and
- ineffective stewardship of the State's real property portfolio.

Since 2003, the U.S. Government Accountability Office has considered real property management an area of high risk due to its greater vulnerabilities to waste, fraud, abuse, and mismanagement as well as major challenges associated with economy, efficiency, or effectiveness.[9] Given North Carolina's vast portfolio of real property assets, it is important to understand the current surplus process to ensure that the State minimizes its risk and maximizes the efficient and effective use of real property.

[9] U.S. Government Accountability Office (2003). *High Risk Series: An Update (GAO-03-119)*. Washington, DC.

# Findings

**Finding 1. Disposing of unneeded real property and eliminating leases in favor of optimized utilization of state-owned property would generate an estimated one-time savings of $14.3 million as well as $2.6 million in future cost avoidance.**

Retaining vacant and underutilized properties carries financial implications, including building deterioration and loss of local property tax revenue. Another financial implication of retaining vacant or unused state properties is the loss of potential state General Fund revenues that would have been gained had the property been sold. Allowing state-owned and leased properties to remain underutilized may also lead the State to lease office space unnecessarily. Identifying and disposing of properties that do not meet a current or future programmatic need can generate one-time revenue and allow the State to avoid unnecessary expenditures.

**North Carolina retains interest in real property that is underutilized, vacant, or no longer serves a programmatic need.** The Program Evaluation Division (PED) expected to be able to use the Department of Administration (DOA) inventory to identify unused and underutilized real property. However, PED's review of this database revealed two major shortcomings. First, the State's inventory does not track utilization or mission dependency. These two pieces of information are critical when trying to identify unused, underutilized, and unneeded property (see Finding 2). Second, PED could not verify the accuracy and completeness of the State's inventory (see Finding 4). With no independent verification of the State's inventory, PED could not rely on the information about real property assets contained in the DOA database and therefore could not systematically select a sample of real property to evaluate in order to generalize findings.

Instead, PED selected a purposive sample of state-owned land, state-owned buildings, and office and warehouse leases for site visits.[10] The sample focused on

- state-owned buildings and leased office and warehouse space in Wake County or nearby; and
- property identified by state agencies as unused, underutilized, or no longer serving a programmatic need.

In total, PED conducted 49 site visits of state property. In addition, the division measured unassigned or unused workspace and storage space, discussed plans for space usage with agency officials, and reviewed lease documents to identify property that is underutilized, unused, or no longer serving a programmatic need. Exhibit 4 lists each property visited during this evaluation.

[10] Purposive sampling is a type of non-probability sampling technique. Unlike the various sampling techniques that can be used under probability sampling (e.g., simple random sampling, stratified random sampling, etc.), the goal of purposive sampling is not to randomly select units from a population to create a sample with the intention of making generalizations. Instead, the sample is selected based upon characteristic(s) identified by the researcher.

## Exhibit 4: The Program Evaluation Division Conducted 49 Site Visits Across 6 Counties and Identified 17 Properties for Disposal

| Count | Site Name | Interest | Total Space | Est. Utilization Rate | Available Space | Recommended Action |
|---|---|---|---|---|---|---|
| | **Department of Administration** | | | | | |
| 1 | Andrews Duncan House | Owned | 4,798 square feet | 0% | 4,798 square feet | Sell |
| 2 | Ashley House | Owned | 3,352 square feet | 0% | 3,352 square feet | Sell |
| 3 | Cambridge House | Owned | 2,496 square feet | 0% | 2,496 square feet | Sell |
| 4 | Coble Helms House | Owned | 2,776 square feet | 0% | 2,776 square feet | Sell |
| 5 | Farlow House | Owned | 2,687 square feet | 0% | 2,687 square feet | Retain |
| 6 | Gay House | Owned | 2,025 square feet | 0% | 2,025 square feet | Sell |
| 7 | Heartt House | Owned | 5,416 square feet | 0% | 5,281 square feet | Sell |
| 8 | Heck-Andrews House | Owned | 4,834 square feet | 0% | 4,834 square feet | Sell |
| 9 | Howell House | Owned | 2,814 square feet | 0% | 2,814 square feet | Sell |
| 10 | Lamar House | Owned | 3,416 square feet | 0% | 3,416 square feet | Sell |
| 11 | McGee House | Owned | 2,315 square feet | 0% | 2,315 square feet | Demolish and Sell |
| 12 | Watson House | Owned | 1,606 square feet | 0% | 1,606 square feet | Sell |
| 13 | Worth House | Owned | 1,530 square feet | 0% | 1,530 square feet | Sell |
| | **Department of Agriculture and Consumer Services** | | | | | |
| 14 | Animal Diagnostic Lab and Storage (Duplin) | Owned | 8,776 square feet | 0% | 8,776 square feet | Sell |
| 15 | Gas and Calibration Station (New Hanover) | Owned | 513 square feet | 0% | 513 square feet | Reallocate |
| 16 | Livestock Show and Sale Facility (Iredell) | Owned | 46.25 acres | 0% | 46.25 acres | Sell |
| 17 | Piedmont Triad Farmers Market (Guilford) | Owned | 6.36 acres | 0% | 6.36 acres | Sell |
| | **Department of Commerce** | | | | | |
| 18 | DES Call Center | Leased | 21,564 square feet | 62% | 5,026 square feet | Retain and increase utilization |
| 19 | DES Kendall Complex | Owned | 175,308 square feet | 76% | 26,785 square feet | Retain and increase utilization |
| | **Department of Health and Human Services** | | | | | |
| 20 | Cole Building | Owned | 2,690 square feet | 86% | 253 square feet | Retain |
| 21 | Cooke Building | Owned | 9,136 square feet | 90% | 573 square feet | Retain |
| 22 | Disability Determination | Leased | 168,049 square feet | 91% | 9,660 square feet | Retain |
| 23 | Eligibility Determination (Durham) | Leased | 95,602 square feet | 38% | 31,919 square feet | Retain and increase utilization |
| 24 | Fisher Building | Owned | 9,946 square feet | 91% | 602 square feet | Retain |
| 25 | Public Health Building 3 | Leased | 24,366 square feet | 91% | 2,220 square feet | Retain |
| | **Department of Public Instruction** | | | | | |
| 26 | Administration Building | Owned | 2,087 square feet | 100% | 0 square feet | Retain |
| 27 | Building IV | Owned | 1,363 square feet | 100% | 0 square feet | Retain |

## Exhibit 4 (Cont'd.): PED Conducted 49 Site Visits Across 6 Counties and Identified 17 Properties for Disposal

| Count | Site Name | Interest | Total Space | Est. Utilization Rate | Available Space | Recommended Action |
|---|---|---|---|---|---|---|
| 28 | Block House I | Owned | 735 square feet | 100% | 0 square feet | Retain |
| 29 | Cathey | Owned | 5,483 square feet | 0% | 3,564 square feet | Retain and increase utilization |
| 30 | Penland Building | Owned | 4,793 square feet | 39% | 1,904 square feet | Retain and increase utilization |
| 31 | Textbook Warehouse | Owned | 95,393 square feet | 84% | 15,000 square feet | Retain |
| | **Department of Public Safety** | | | | | |
| 32 | Archdale Allocation | Owned | 50,512 square feet | 87% | 4,159 square feet | Retain |
| 33 | Corrections Central Warehouse | Leased | 32,500 square feet | 89% | 2,337 square feet | Retain |
| 34 | Corrections Construction Yard | Owned | 20,076 square feet | 80% | 2,610 square feet | Retain |
| 35 | Corrections Storage | Leased | 22,800 square feet | 80% | 2,964 square feet | Retain |
| 36 | Governor's Crime Commission | Leased | 18,922 square feet | 90% | 760 square feet | Retain |
| 37 | Medical Record Storage | Leased | 14,660 square feet | 100% | 0 square feet | Retain |
| 38 | Oil Dock, Fabrication, Storage | Owned | 10,236 square feet | 50% | 3,327 square feet | Sell |
| 39 | State Highway Patrol Campus Home | Owned | 1,164 square feet | 0% | 1,164 square feet | Demolish and retain |
| | **Department of Transportation** | | | | | |
| 40 | BSIP Building | Leased | 60,477 square feet | 94% | 2,368 square feet | Retain |
| 41 | Century Center, Building B | Owned | 115,673 square feet | 89% | 8,169 square feet | Retain |
| 42 | Highway Building | Owned | 137,023 square feet | 84% | 13,930 square feet | Retain |
| 43 | Highway Geo Technical Unit | Leased | 13,883 square feet | 94% | 253 square feet | Retain |
| 44 | Highways Building | Leased | 54,602 square feet | 92% | 3,303 square feet | Retain |
| 45 | Highway Maintenance | Owned | 25,829 square feet | 75% | 4,197 square feet | Retain and increase utilization |
| 46 | Highway Maintenance Equip Depot | Owned | 61,647 square feet | 70% | 12,021 square feet | Retain and increase utilization |
| 47 | Highway Patrol Communication and Logistics | Owned | 3,493 square feet | 86% | 319 square feet | Retain |
| 48 | Raney Building | Owned | 27,178 square feet | 78% | 3,867 square feet | Retain |
| 49 | Wilmington DMV (New Hanover) | Owned | 3,430 square feet | 100% | 0 square feet | Sell |

Notes: Program Evaluation Division (PED) estimated utilization rates by dividing the total available space by the total usable space for each facility. Total available space is the unused space as measured during site visits. For leased office space, total usable space equals the required space listed in the lease specifications form submitted by the agency. For office space in state-owned buildings total usable space equals the total square feet listed in the state property inventory minus a 35% circulation rate. PED estimated utilization rates for warehouse and storage facilities based on observations of facility use during site visits.

Unless otherwise indicated, all properties are located within Wake County. For buildings, total space is the net current square feet. The State Highway Patrol Campus is allocated to the Department of Public Safety (DPS) even though the property's operating expenses are incurred by the Department of Transportation (DOT). The Archdale Building and Textbook Warehouse are both within the State Government Complex and are allocated to DPS and the Department of Public Instruction (DPI), respectively. The Archdale Building houses both DPS and the Department of Environment and Natural Resources (DENR); total square feet and available square feet for this property only includes square feet allocated to DPS. Utilization of the Cambridge House is at 0% although the Department of Commerce's (DOC) Division of Employment Security (DES) uses two rooms within this home for file storage while still maintaining storage space at other locations noted on this table; since the property is not allocated to the agency, its utilization is 0%. The Corrections Construction Yard facility includes a building that is used by the Department of Environment and Natural Resources (DENR) but is allocated to the Department of Public Safety. The Farlow House is recommended for retention because of its proximity to current state-owned buildings.

*Source: Program Evaluation Division based on a review of the state property database and site visits.*

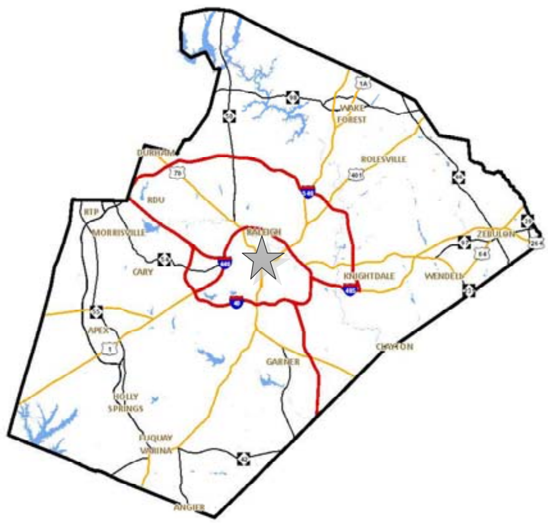
From this limited sample, PED identified 16 properties that could generate an estimated $14.3 million in one-time state revenue if sold. These properties are allocated to three state agencies—the Departments of Administration, Agriculture and Consumer Services, and Public Safety—and distributed across five counties (Duplin, Iredell, Guilford, New Hanover, and Wake). These properties are described below.

**The Department of Administration retains 12 vacant properties within the State Government Complex that would generate an estimated $11.1 million in one-time revenue if sold.** [11] These properties are historic homes constructed between 1870 and 1947. As shown in Exhibit 5, five of these properties are located along Blount Street, five properties are located on Person Street, and two properties are located on North Street. There is no record of how long these houses have sat vacant. Site visits confirmed that no state agency regularly conducts business at these properties.[12] One building—the Heck-Andrews house—has remained vacant since the State acquired it under the administration of Governor James Martin. [13]

Observations from site visits and collected data demonstrate all of these properties needing repair work ranging from cosmetic fixes to significant structural fortification.[14] In total, it would cost the State approximately $18.1 million to repair and renovate these buildings for use. Disposing of these properties through a sale could generate estimated one-time revenue of $11.1 million for the State. In addition, an estimated $108,858 in annual property tax revenues would be restored to the Wake County tax base.[15]

[11] Revenue estimates are based on county assessed values.
[12] The Employment Security Commission within the Department of Commerce uses two rooms of the Cambridge House for file storage.
[13] James Martin served as Governor of North Carolina from 1985-1993.
[14] The interior condition of the McGee house could not be observed due to structural issues.
[15] State-owned property is exempt from local property taxes. This figure is based on the total assessed value of the land and buildings in Wake County.

# Exhibit 5: DOA Retains 12 Vacant Historic Homes in the State Government Complex in Downtown Raleigh





| Map No. | Property Name | Location | Estimated Utilization Rate | Total Size | Total Assessed Value | Est. Annual Local Tax Proceeds |
|---|---|---|---|---|---|---|
| 1 | Howell House | 111 E. North St. | 0% | 2,814 square feet | $1,623,643 | $15,961 |
| 2 | Heck-Andrews House | 309 N. Blount St. | 0% | 4,834 square feet | 947,748 | 9,325 |
| 3 | Andrews-Duncan House | 407 N. Blount St. | 0% | 4,798 square feet | 1,573,196 | 15,466 |
| 4 | McGee House | 411 N. Blount St. | 0% | 2,315 square feet | - | - |
| 5 | Coble Helms House | 417 N. Blount St. | 0% | 2,776 square feet | 803,205 | 7,907 |
| 6 | Heartt House and Storage | 421 N. Blount St. | 0% | 5,416 square feet | 3,850,427 | 37,823 |
| 7 | Gay House | 419 N. Person St. | 0% | 2,025 square feet | 347,992 | 3,437 |
| 8 | Worth House | 415 N. Person St. | 0% | 1,530 square feet | 118,845 | 1,187 |
| 9 | Watson House | 411 N. Person St. | 0% | 1,606 square feet | 398,065 | 3,928 |
| 10 | Cambridge House | 407 N. Person St. | 0% | 2,496 square feet | 393,916 | 3,887 |
| 11 | Lamar House | 401 N. Person St. | 0% | 3,416 square feet | 422,956 | 4,173 |
| 12 | Ashley House | 219 E. North St. | 0% | 3,352 square feet | 585,122 | 5,765 |
| **Total** | | | | **37,378 square feet** | **$11,065,115** | **$ 108,858** |

Note: The assessed value of the Heartt House and Storage includes the assessed value of land on which the Howell House and McGhee House are located, and thus assessed land value is only included once for these three homes. The McGee House is a candidate for disposal by demolition and its assessed land value is accounted for in the Heartt House and Storage property. Property photos courtesy of Google Earth.

*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 Wake County tax department.*

**The Department of Agriculture and Consumer Services (DACS) retains four vacant properties that could generate an estimated $1.8 million in one-time revenue if sold.** According to DACS officials, these properties no longer serve a programmatic need. In addition, DACS officials identified all four properties for disposition in response to a 2013 legislative study of surplus property.[16] The four properties are featured in Exhibit 6 and described below.

- **Livestock Show & Sale Facility (Iredell County).** This 46.25 acre property in Statesville has remained undeveloped since its purchase in 1998. Further, DACS staff recommends sale as it has no plans for developing the property. As a property zoned for commercial/industrial use, disposition of the property by sale could generate an estimated $943,500 in one-time revenue for the State. If sold, this property could also return an estimated $5,236 in annual property tax revenues to the Iredell County tax base.
- **Piedmont Triad Farmers Market (Guilford County).** This undeveloped land is situated across the road from the Piedmont Triad Farmers Market on 6.36 acres in Greensboro. DACS officials stated the agency does not have plans to develop this land. Disposition of this property could generate an estimated $190,000 in one-time revenue for the State and could return an estimated $2,665 in annual tax revenues to the Guilford County tax base.
- **Animal Diagnostic Lab (Duplin County).** Constructed in 1980, this facility measures 8,776 square feet and is located on 5.09 acres in Rose Hill. The facility contains laboratory and office space and was previously occupied by the DACS Veterinary Division. According to DACS officials, the property has been vacant for about seven years. DACS pursued disposing of the property through sale to the Duplin County Board of Education, but the school board is no longer interested in acquiring the property. Disposing of this property through a sale could generate an estimated $687,400 in one-time revenue for the State. In addition, an estimated $5,018 in annual property tax revenues may be returned to the Duplin County tax base.
- **Fuel and Calibration Station (New Hanover County**). This property is located across the street from the North Carolina State Port Authority office in Wilmington. The site is a small triangular-shaped island lot formed by the intersections of Burnett Boulevard, Virginia Avenue, and Southern Boulevard. In addition, remediation of underground storage containers on the site would require an expenditure of $25,000. The condition, shape, and location of this parcel of land make it less attractive for a private sale. DACS staff recommends reallocating the land to the State Ports Authority because the authority has been maintaining the property for some time by mowing the lawn.

[16] Subcommittee on Surplus Property of the House Select Committee on State-Owned Assets (2013). Report to the 2013 Regular Session of the 2013 General Assembly of North Carolina. Raleigh: NC: North Carolina General Assembly.

## Exhibit 6: Sale of Unneeded DACS Property Would Generate an Estimated $1.8 Million in One-Time Revenue


| **Map No.** | **1** | **2** | **3** | **4** | **Total** |
|---|---|---|---|---|---|
| **Aerial Photo** |  |  |  |  | |
| **Property Name** | Livestock Show and Sale Facility | Piedmont Triad Farmers Market | Animal Diagnostic Lab | Gas and Calibration Station | |
| **Location** | Bristol Road Statesville | 8254 Tyner Road Greensboro | 324 Yellowcut Road Rose Hill | 2201 Burnett Boulevard Wilmington | |
| **Utilization Rate** | 0% | 0% | 0% | 0% | |
| **Disposition** | Sell | Sell | Sell | Reallocate | |
| **Total Size** | 46.25 acres | 6.36 acres | 8,776 square feet | 513 square feet | 9,289 sq. ft., 52.61 acres |
| **Total Assessed Value** | $943,500 | $190,000 | $687,400 | - | $1,820,900 |
| **Estimated Annual Local Tax Proceeds** | $5,236 | $2,665 | $5,018 | - | $12,919 |

Note: Assessed values are based on information from the county tax departments of the following counties: Duplin, Guilford, Iredell, and New Hanover. Property photos courtesy of Google Earth.

*Source: Program Evaluation Division based on site visits, the Department of Administration's database of state property, and the Department of Agriculture and Consumer Services.*

**The Department of Public Safety (DPS) retains an underutilized storage facility that could yield an estimated $1.4 million if the facility was sold and existing functions were redistributed to other sites.** This storage facility is located on U.S. Highway 70 in Garner on 8.09 acres of land and consists of three small buildings totaling 10,236 square feet. Correction Enterprises uses this facility for three functions: to store correctional clothing no longer used by corrections officers, to store files and blueprints for another DPS facility, and for occasional fabrication of materials for video surveillance equipment. DPS also stores corrections vehicles waiting to be decommissioned and returned to DOA Motor Fleet Management at this location. Site visit observations noted that the property is unstaffed. Program Evaluation Division staff identified this property for disposition because Correction Enterprises has available space at other facilities that would enable fulfillment of the functions currently being performed at this facility.

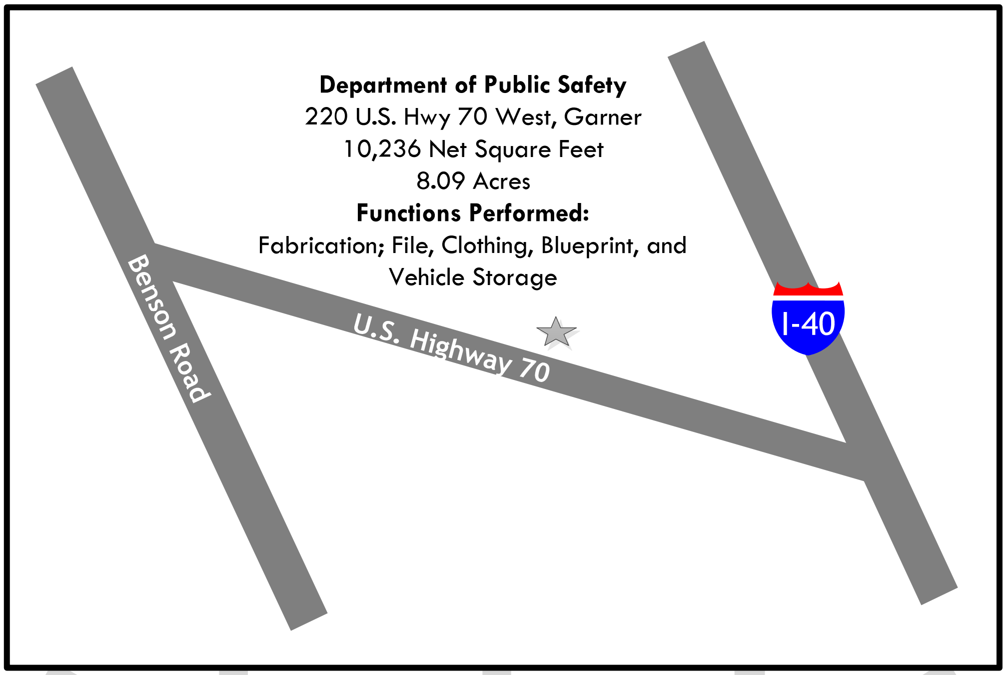
- **Clothing storage can be moved to a property with an existing lease**. A property leased by Correction Enterprises at 1349 Express Drive in Raleigh could accommodate these storage needs. This facility has 2,964 square feet of available space. In addition, PED identified outdated prison guard uniforms being stored since 2009 that were no longer being used by prisons within the state. Selling or donating these materials to local governments or nonprofit organizations would reduce storage needs.
- **The fabrication function can be moved to a state-owned property**. A DPS construction site located at 1401 Hodges Street in Raleigh could accommodate fabrication functions. The Hodges Street property has an estimated 6,007 square feet of storage space currently being used by the Department of Environment and Natural Resources. This space is presently used to store filing cabinets and Museum of Natural History equipment and displays. According to DENR officials, much of the contents of this storage building could be stored in nearby state-owned properties that have been sold or allocated to DENR. Moving or disposing of these items would provide necessary space to relocate DPS fabrication operations currently being performed at the Garner facility to the Hodges location. DPS officials contend that the storage building at the Hodges facility would need renovation prior to consolidation but did not provide cost estimates when PED requested this information.
- **Vehicle storage, file and blueprint storage, and video services can be moved to an existing leased property**. A leased warehouse at 200 Leagan Drive in Raleigh has an estimated 2,337 square feet of available space that can accommodate the file and blueprint storage and video services functions currently performed at the Garner facility. In addition, PED identified three sites around the capital area that could be used to accommodate DPS vehicle storage needs:

- DOT Equipment Depot at 4809 and 5105 Beryl Road, Raleigh,[17]
- DOA State Surplus Property Agency Warehouse at 6501 Chapel Hill Road Highway 54 West, Raleigh, and
- DOA Motor Fleet Management Motor Pool at 1915 Blue Ridge Road, Raleigh.

Redistributing the functions from the Garner property to other state-owned facilities would eliminate programmatic need for the U.S. Highway 70 facility in Garner. If sold, this property could yield an estimated one-time revenue of $1.4 million for the State and return $16,448 to the annual property tax base of Wake County.

[17] DOT officials stated the agency is willing to work with DOA and DPS to accommodate its vehicle storage needs.

## Exhibit 7: Shifting Operations and Disposing of a DPS Storage Facility Would Yield an Estimated $1.4 Million in One-Time Revenue




**Function Relocated:** Clothing Storage

**Corrections Storage**
1349 Express Drive, Raleigh
22,800 Net Sq. Ft.
2,964 Available Sq. Ft.

**Function Relocated:** Fabrication Services

**Corrections Construction Yard (DENR Allocation)**
1401 Hodges Street, Raleigh
6,007 Net Sq. Ft.
6,007 Available Sq. Ft.

**Functions Relocated:** File and Blueprint Storage
Video Services

**Corrections Central Warehouse**
200 Leagan Drive, Raleigh
32,500 Net Sq. Ft.
2,337 Available Sq. Ft.

**Function Relocated:** Heavy Duty Vehicle Storage

**DOT Highway Maint. Equip. Depot**
4809 and 5105 Beryl Road, Raleigh

Or

**Surplus Property Warehouse**
Highway 54 West, Raleigh

**Function Relocated:** Passenger Vehicle Storage

**Surplus Property Warehouse**
Highway 54 West, Raleigh

Or

**DOA Central Motor Pool**
1915 Blue Ridge Road, Raleigh

Note: Agency acronyms are as follows: Department of Administration (DOA), Department of Public Safety (DPS), and Department of Transportation (DOT).

*Source: Program Evaluation Division based on site visits and a review of property databases.*

**Optimizing the utilization of state-owned space in lieu of leasing space could result in an estimated $2.6 million in future cost avoidance.** State law requires all state departments, institutions, and agencies to utilize state-owned space in lieu of negotiating or renegotiating leases for rental of office space. In many cases, the need for leased space could be eliminated by relocating operations to underutilized state-owned space. Exhibit 8 lists three state-owned properties identified during site visits that had sufficient available space to accommodate one or more leases. In total, there are seven leases terminating within the next year whose space requirements could be accommodated by existing space in one of those state-owned buildings.[18] As the exhibit shows, allowing these seven leases to expire and consolidating operations into underutilized, state-owned space could result in an estimated $2.6 million in future cost avoidance.

## Exhibit 8: Opportunities Exist to Optimize Utilization of State-Owned Space That Could Result in an Estimated $2.6 Million in Future Cost Avoidance

| Property (Current Occupants) | Lease Set to Expire | Total Square Feet | Expiration Date | Term (in Years) | Annual Rent | Cost Avoidance |
|---|---|---|---|---|---|---|
| **State-owned** | **Leased** | | | | | |
| **Archdale Building** (DPS) Unused: 4,159 Square Feet | DPS Personnel Office for Substance Abuse | 4,222 | 07/31/2015 | 7 | $ 73,417 | $ 513,918 |
| **Kendall Complex** (DOC) Unused: 26,785 Square Feet | DOL OSHA | 12,287 | 08/31/2015 | 5 | 192,916 | 964,582 |
| | DOC Rural Electrification Authority | 1,626 | 07/31/2015 | 3 | 13,200 | 39,564 |
| | DOC DES | 5,900 | 09/30/2015 | 3 | 79,245 | 237,518 |
| | DENR Waste Management | 2,450 | 11/30/2015 | 3 | 24,000 | 71,934 |
| | DPS Inmate Grievance Resolution Board | 2,811 | 02/28/2016 | 11 | 39,748 | 437,332 |
| **Raney Building** (DOT) Unused: 3,867 Square Feet | DOT ROW Appraisal Office | 3,731 | 11/30/2015 | 7 | 54,398 | 380,786 |
| **Total** | | **33,027** | | **-** | **$476,924** | **$ 2,645,634** |

Notes: Leases selected are due to expire between July 2015 and June 2016. Cost avoidance for each lease is calculated by considering the previous term and annual rent. Cost avoidance figures do not include costs associated with relocating agency operations. Agency acronyms are as follows: Department of Public Safety (DPS), Department of Commerce (DOC), Department of Labor (DOL), Occupational Safety and Health Administration (OSHA), Division of Employment Security (DES), Department of Environment and Natural Resources (DENR), Department of Transportation (DOT), and Right of Way (ROW).

*Source: Program Evaluation Division based on State Property Office property database.*

In summary, the Program Evaluation Division conducted 49 site visits of state property. These site visits show the State retains interest in real property that is underutilized, vacant, or no longer serves a programmatic need. The Program Evaluation Division identified 17 properties for disposal and 7 leases that could be eliminated and consolidated into unused state-

[18] PED identified these leases based on space requirements and lease expiration data. PED did not consider the feasibility of eliminating or consolidating each particular lease.

owned space. This disposal and consolidation would generate an estimated one-time savings of $14.3 million as well as $2.6 million in future cost avoidance. Although the estimated one-time revenue and cost avoidance savings cannot be generalized statewide, a systematic review of state property may yield additional opportunities to dispose of or consolidate assets to reduce cost.

**Finding 2. North Carolina lacks a process to systematically identify surplus real property.**

The Program Evaluation Division was able to identify properties for disposal and consolidation by collecting information on mission dependency and utilization for a sample of properties. However, to systematically identify unused, underutilized, and inefficient property it is necessary to track and monitor the appropriate property performance measures. At present, North Carolina lacks a statutory definition, process, and data to perform this function.

**North Carolina has not statutorily defined the term surplus**. Federal code defines surplus as excess property no longer needed to meet the needs or responsibilities of a given agency. Federal code further specifies surplus property as assets that are unused or underutilized. In 2003, session law defined surplus real property as land or buildings that are unused or underutilized.[19] However, the session law was not codified and this definition for surplus real property expired in 2005. Currently, state law only refers to surplus real property and does not define the term.[20] Similarly, North Carolina Administrative Code refers to surplus state-owned property[21] without clarifying exactly what is meant by the term. Absent a codified definition, agencies and institutions maintain their own definitions of surplus property. Of the agencies and institutions surveyed, 14 of 31 reported having a definition for surplus.[22] These definitions and criteria include property that

- no longer supports current or future programs managed by the department,
- has outlived its intended purpose due to age or condition and is no longer utilized, or
- is unneeded by the state agency.

**Absent a statutory definition or criteria for surplus real property, the Department of Administration has delegated the responsibility to identify unneeded property to the agencies.** DOA does not require agencies to report surplus property and does not provide guidance or criteria on how and when to determine if an asset is no longer needed. However, when state agencies identify unneeded property they are required to submit an application to DOA to begin the disposal process. Thus, the process for identifying unneeded property depends on each

[19] Session Law 2003-284 Section 6.89(a).
[20] N.C. Gen. Stat. § 40A-I 0 refers to the sale and disposition of surplus property without defining surplus.
[21] 01 NCAC 06B .0304 refers to the rules related to the sale of surplus state-owned property but never defines surplus.
[22] The Department of Environment and Natural Resources was unable to provide a single agency response and as a result has not been counted as part of the number of respondents.

agency's ability and willingness to do so. Without a systematic process in place the State has relied on one-time legislatively directed efforts to identify unneeded or surplus property.

**One-time efforts to identify and implement systems for managing surplus properties have yielded limited results.** Since 2003, the General Assembly has made four discrete attempts to implement reforms and changes to the State's system for identifying and disposing of surplus real property.

- **2003:** Session Law 2003-284 directed DOA, in consultation with affected agencies and institutions, to develop and implement a system that would continuously identify state-owned surplus real property, evaluate that property, and dispose of that property as appropriate. DOA contracted with a consultant for a proposal to develop and implement the system. According to the consultant's report the system would have required 13 additional positions. DOA filed an expansion budget request to develop the system but the positions were never funded.

- **2011:** Session Law 2011-145 directed DOA, in consultation with affected agencies and institutions, to implement a system for the sale of disposable assets (defined as unused or underutilized land and buildings). DOA surveyed state agencies and institutions requesting assistance in updating records in the state property database. Surveys identified 26 properties for disposal, three of which were recommended for sale, one of which has been sold.[23]

- **2012:** In 2012, the General Assembly convened a House Subcommittee on Surplus Property of State-Owned Assets. The subcommittee identified 52 surplus properties, half of which were identified for potential disposal. The subcommittee also found:
  - identifying potential surplus property has been met with reluctance by agencies;
  - requiring each state agency to evaluate its property for utilization every two years and submit a detailed report to DOA would promote more effective reporting of surplus property; and
  - establishing an automatic designation of surplus property based on utilization reports would promote agencies to use state property more effectively.

  The subcommittee recommended draft legislation addressing these findings. House Bill 13 was introduced during the 2013 session but was not enacted.

- **2015:** Introduced during the 2015 session, Senate Bill 2015-636 would require DOA to develop and implement a plan to analyze the current uses of all state-owned or leased property, to consolidate state functions into as few facilities as possible, and to

[23] These properties include 95 acres located in Cary in Wake County, 14 acres located in Wilmington in New Hanover County, and 4 acres located in Kinston in Lenoir County. Only the Lenoir County property has been sold.

sell or otherwise dispose of all property thereby freeing up state functions.

A Program Evaluation Division survey asked agencies and institutions to identify unneeded or surplus property. Of the 12 properties identified as surplus by agencies and institutions, 9 (75%) had been identified as unneeded or surplus by prior one-time efforts. This result demonstrates that one-time efforts to identify and dispose of real property have been ineffective and led to the retention of assets that have already been identified as being no longer needed.[24]

**The federal government has established standards for real property data collection; however, the Department of Administration's State Property Office (SPO) does not maintain the data necessary to make informed decisions regarding the disposition of real property.** Disposition is the process by which agencies identify surplus property and then transfer, donate, or sell facilities or land they no longer need. Disposition is an important asset management function because the costs of maintaining unneeded properties can be substantial. Savings generated by the disposal of unneeded properties can be reallocated to real property needs such as improving building security or IT infrastructure or repairing existing facilities, or it can be used to support other policy priorities. Disposition is also important because, as a mechanism by which private entities acquire excess real property, it places a property and its operations back into the local tax base.

The federal government's General Services Administration's (GSA's) Federal Real Property Council (FRPC) was created to promote efficient and economical use of federal real property assets. To carry out this objective the FRPC established and defined 25 mandatory data elements to be captured at the asset level and reported by all federal agencies to GSA. The FRPC has designated 4 of the 25 data elements as first-tier performance measures. Information on an asset's mission dependency, cost, condition, and utilization are most important when trying to assess its performance. These performance measures are important because they can serve as indicators for identifying underused and inefficient assets. As Exhibit 9 shows, North Carolina's Department of Administration electronic database lacks important asset-level performance measures.

[24] Of the nine properties that had been identified as unneeded or surplus by prior one-time efforts, three are recommended for disposal, one is recommended for reallocation, and one is currently on the market.

## Exhibit 9: The State Property Office Lacks Important Performance Measures for Determining When Real Property Can Be Deemed Surplus

| Information | Description | Tracked by State Property Inventory |
|---|---|---|
| Mission Dependency | The value an asset brings to the performance of the mission, goals, and objectives | ○ |
| Cost | Acquisition, rents, and operation and maintenance | ◖ |
| Condition | A general measure of an asset's condition at a specific point in time | ○ |
| Utilization | The degree to which owned and leased space is being used | ○ |

●= Fully Tracked ◖ = Partially Tracked ○ = Not Tracked

Note: The state property database includes, but is not limited to, property attributes such as size (square feet and acreage), agency assignment, asset type, county and street location, acquisition cost and date, and insurance value.

*Source: Program Evaluation Division based on a review of literature and the state property database.*

**The State Property Office does not track mission dependency.** Mission dependency describes the value the asset brings to the performance of an agency's mission, goals, and objectives. Understanding mission dependency is useful for prioritizing construction and repair projects and identifying assets no longer serving a programmatic need. The latest standards developed by the FRPC divide assets into three mission dependency categories:

- **Mission critical**: Without the constructed asset or parcel of land, the mission is compromised.
- **Mission dependent, not critical:** Does not fit into the "mission critical" or "not mission dependent" categories.
- **Not mission dependent**: Does not affect the mission.

These standards have allowed federal agencies like the National Atmospheric and Space Administration (NASA) to develop and track a Mission Dependency Index as a performance metric for its real property portfolio. This index reflects a systematic process for identifying an asset's value to a mission in terms of interruptability, relocateability, and replicability and is used as a driver for asset prioritization.

**State Property Office cost tracking is limited to acquisition and leasing costs and does not allow the analysis necessary to prioritize real property disposition.** Effective real property portfolio management is performed on a life cycle cost accounting basis. Life cycle costing is a process of evaluating the economic performance of an asset over its entire life. This method balances the initial investment with the long-term expense of owning and operating the building. This process requires accounting not only for the cost of acquisition, construction and leasing, but also for operation and maintenance costs over the life of the asset.

The property database managed by the SPO tracks acquisition and leasing costs, yet fails to capture operation and maintenance costs. Operation and maintenance costs include recurring maintenance and repair costs, utilities (plant operation and purchase of energy), cleaning and janitorial costs, and roads and grounds expenses. Tracking operation and maintenance costs takes place at the agency level. The Program Evaluation Division surveyed agencies and found 74% of respondents reported tracking both operation and maintenance costs at the building or asset level. These survey results demonstrate this information exists in many cases and could be incorporated into the state property database. Without complete cost tracking, the SPO cannot implement life cycle cost accounting to make fully informed determinations regarding the retention or disposal of particular assets.

**The State Property Office does not measure or index the condition of each asset, leaving the State without critical information for managing real property disposition.** A facility condition index is a general measure of constructed asset condition at a specific point in time. This measure allows administrators to prioritize projects based on value and cost and make fully informed decisions about these assets in terms of disposition of continued investment.

In North Carolina, asset repair needs are evaluated through the State Construction Office's Facilities Condition Assessment Program (FCAP). The FCAP provides a professional review of a facility's key components and systems in order to define problems, develop cost estimates, and create plans for repairs. However, the SPO database for managing real property does not include estimates for repair needs developed through the FCAP process. Without these data, the SPO cannot calculate a facility condition index for each asset.

**The State Property Office does not measure or track utilization, leaving the State's assets susceptible to underutilization.** Tracking utilization is important because it

- describes the degree to which owned and leased space is being used,
- identifies operational inefficiencies and opportunities for consolidation, and
- provides opportunities to sell, transfer, or donate unused and underutilized properties.

The state property database does not track the extent to which an asset is being used. Currently, the SPO relies on agencies to disclose excess space; however, there are no procedures or guidance provided to agencies for collecting and disclosing this information. There is no requirement for agencies to report on utilization, nor is a field included in the state property database for tracking available space.[25]

The ability to identify vacant or unused space is important because these assets represent property no longer meeting a programmatic need. Vacant and unused properties are ideal for disposition through transfer, donation, or sale and offer opportunities for generating one-time revenue and returning previously untaxable property to the local tax base. Furthermore,

[25] The state property database includes a field that denotes whether a building is vacant or occupied. However, no field exists showing the extent of occupancy.

analyzing property utilization is important for optimizing state-owned space. Underutilized assets are inefficient and efforts should be taken to increase utilization wherever opportunities exist.

Collecting data on these four performance measures is important because they can serve as indicators for identifying underused and inefficient assets. DOA contends that the cost and condition data elements can readily be incorporated into the database. However, incorporating utilization and mission criticality will require DOA to develop adequate guidance and procedures for agencies and a process to verify agency data in order to ensure consistency statewide.

In summary, North Carolina lacks a statutory definition and process for identifying surplus real property. In the past, identification of real property that is underutilized, vacant, or no longer serving a programmatic need has been reliant on legislatively directed, one-time initiatives that have resulted in the disposition of few properties. Important performance measures that would enable the SPO to more effectively identify inefficient, unused, or underutilized property are not tracked by the state property database. As a result, North Carolina lacks a systematic process for identifying property for disposal.

**Finding 3. The Department of Administration does not effectively control and manage the State's portfolio of real property.**

Real property disposition is just one of several components of real property portfolio management. Over the past 20-25 years public and private sector property management has evolved from a discipline focused on managing individual buildings to one focused on the total performance of a portfolio of assets. Portfolio management seeks to optimize the financial performance of the portfolio of leased and owned assets through

- setting strategic priorities,
- performance management,
- benchmarking,
- monitoring utilization, and
- disposition of unneeded properties.

Based on these criteria, the Program Evaluation Division expected to find that the Department of Administration (DOA) had engaged in practices of portfolio management. As Exhibit 10 shows, DOA has not taken control of managing the State's portfolio of real property.

## Exhibit 10: The Department of Administration is Not Actively Engaged in Practices Associated with Portfolio Management

| Portfolio Management Practice | Description of Activity | Practice Implemented |
|---|---|---|
| Setting Strategic Priorities | Establishing strategic initiatives for the State's portfolio of real property through goal setting | ○ |
| Asset Performance Management | Establishing and monitoring an asset performance management system | ○ |
| Benchmarking | Continuously comparing and measuring asset performance against comparable organizations' asset performance | ○ |
| Utilization Management | Tracking and monitoring the extent to which each asset is being used | ○ |
| Disposition | Identifying and disposing of unneeded real property | ◖ |

● = Fully Implemented ◖ = Partially Implemented ○ = Not implemented

*Source: Program Evaluation Division based on a review of statute and operations.*

**DOA has not established strategic priorities for the State's portfolio of real property.** A strategic facilities plan (SFP) is defined as a two-to-five-year plan encompassing the entire portfolio of owned and/or leased space that sets strategic facilities goals based on strategic objectives. Strategic facilities goals determine implementation plans including prioritization of and funding for facility-related projects and capital needs. The SFP is a necessary portfolio management tool because it identifies the type, quantity, and location of spaces required to fully support an organization and includes an in-depth analysis of existing facilities' locations, capabilities, utilization, and condition.

DOA completed a master plan for state facilities in 2008.[26] However, the plan fell short of a strategic facilities plan because it focused on properties in Wake County and did not identify statewide strategic priorities. Without establishing strategic priorities or focusing on all assets within the State's real property portfolio, the department cannot manage the performance of the State's entire portfolio of real property.

A survey of state agencies and institutions shows many agencies are engaged in property management planning. Of the agencies and institutions surveyed, 61% retain property management plans. These data indicate information exists that would allow DOA to begin assembling portfolio-level strategic priorities for individual agency plans. Under its existing statutory authority, DOA could require all agencies and institutions to compile and submit an SFP every five years to collect the information needed to establish statewide goals and objectives for real property.[27]

[26] N.C. Sess. Law 2006-66 appropriated $1 million for this effort. The department contracted with a local master planning firm to complete the plan.
[27] N.C. Gen. State § 143-341(h).

**DOA is not managing the performance of the State's aggregate portfolio of real property.** Effective performance management supports informed decision making about allocation of resources within a given organization. Establishing goals is a critical component of performance management. Goals should be measurable, cascade from strategic priorities, and be outcome-oriented.

The State Property Office's goals are focused on the execution of acquisition and disposal transactions and do not address any aspect of the State's aggregate portfolio. Furthermore, the goals are measured by process-oriented rather than outcome-oriented indicators. As the table in Exhibit 11 shows, the measures used to monitor achievement of objectives focus on individual program processes rather than outcomes and do not address the State's aggregate portfolio of real property.

## Exhibit 11: The Department of Administration's Performance Management System Tracks Processes But Lacks a Portfolio Focus

| Goals | Measure | Portfolio-Oriented |
|---|---|---|
| **Goal 1: Timely and quality management of programs** | • Percentage of general real estate projects responded to within 5 days over most recent 12 month period | **No** |
| | • Number of leases submitted to Council of State that were submitted within 170 days of request of home agency | **No** |
| | • Percentage of Ecosystem Enhancement projects closed within 270 days of the agency request | **No** |
| **Goal 2: Transparency** | • Percentage of records updated in the inventory within 60 days of file closure | **No** |

*Source: Program Evaluation Division based on a review of operations.*

Failing to engage in portfolio-oriented performance management means the State cannot

- anticipate future facility requirements,
- continuously assess and adjust portfolio holdings,
- ensure efficient operation of facilities,
- predict the consequences of management decisions such as deferred maintenance, and
- report on the portfolio in a way that is concise and understandable.[28]

**DOA benchmarking provides limited value because it does not compare performance against private industry standards.** Benchmarking is the process of continuously comparing and measuring a state's performance against the asset performance of comparable organizations. Performance attributes that are comparable include operating costs, leasing rates, and asset values.

The federal government and other states have found value in the practice of benchmarking. For example, the General Services Administration (GSA)

[28] Deferred maintenance and repairs refer to maintenance and repairs that were not performed when scheduled and were put off or delayed until a future period.

manages more than 8,500 private sector leases at an annual cost of over $4 billion. Due to leasing volume, GSA ensures lease rates are competitive with the private sector by partnering with the Logistics Management Institute to measure and analyze leasing performance relative to private industry and has established long-term goals focused on benchmark comparisons. At the state level, the Georgia State Properties Commission benchmarks rental rates in 70 different cities across the state to identify opportunities for savings through renegotiation.

Currently, DOA benchmarking is limited to comparing state leasing rates within the capital area to leasing rates outside the capital area. These comparisons are of limited value given the composition of rural and metropolitan towns outside the capital area. Furthermore, the rates are not compared against private sector leasing rates. Private sector comparisons allow GSA to establish leasing goals against private industry benchmarks to optimize lease value.

**DOA is not engaged in utilization management.** According to the U.S. Government Accountability Office, optimally utilizing owned space presents the opportunity to reduce reliance on leased space and address underutilization of state-owned properties.[29] More efficient utilization of space also allows for gained efficiencies and improved government operations, particularly for agencies relocating to properties already occupied by the same agency. State law requires all departments, institutions, and agencies to use state-owned office space instead of negotiating or renegotiating leases for office space.[30] This law implies that state-owned facilities are the preferred location for agency operations.

Currently, DOA does not track real property utilization. Utilization management would require standards for measuring utilization, establishing baseline utilization data, establishing utilization targets, and monitoring changes over time. As shown in Finding 2, tracking utilization is important for identifying vacant or unused space that can be designated as surplus. Utilization monitoring is equally as important when agencies seek to acquire additional space through lease.

Systematically tracking utilization would allow the SPO to determine if space already exists to meet the needs of lease acquisition requests. At present, the SPO relies on analysis of organizational charts to determine if an agency's request for leased space is justifiable. Furthermore the SPO must rely on agents within the leasing and space planning section to be knowledgeable about available space. However, without utilization information, the SPO cannot be assured that these agents have sufficient information. In Georgia, the process for identifying available state-owned space occurs automatically in the database managed by the Georgia State Properties Commission. The commission seeks a lease if the size and function of the available space does not meet the agency's need.

[29] U.S. Government Accountability Office (July 2012). Federal Real Property: Strategic Partnerships and Local Coordination Could Help Agencies Utilize Space Better (GAO-12-779). Washington, DC. This report notes five considerations in consolidating a current lease into an available government-owned facility: 1) how it affects an organization's mission, 2) building-specific issues (i.e. security needs), 3) condition, 4) configuration, and 5) use for successful colocation.

[30] N.C. Gen. Stat. § 143-341(d1).

**The SPO disposition process relies on agencies to identify surplus assets and uses only two mechanisms to convey unneeded property.** Disposition methods include transfer, donation, demolition, and sale of facilities or land assets that are no longer needed. State law grants DOA the authority to initiate the disposition of state-owned real property.[31] Exhibit 12 compares North Carolina's disposition processes with the federal disposition process.

## Exhibit 12: The State Disposition Process Fails to Systematically Identify Unneeded and Underutilized Property

| Disposition Process | Federal Process | State Process |
|---|---|---|
| Methods for identifying unused and unneeded properties | | |
| Required annual survey of agencies | ● | ○ |
| Analysis of property database | ● | ○ |
| Method of Disposal | | |
| Reallocation to another agency | ● | ● |
| Private sale | ● | ● |
| Gift/donate | ● | ○ |

●= Fully Implemented ◖ = Partially Implemented ○ = Not implemented

Note: The General Services Administration (GSA) is the primary agency overseeing federal property utilization, and is equivalent to North Carolina's State Property Office (SPO).

*Source: Program Evaluation Division based on federal law (40 U.S.C. §102) and a review of operations of the NC State Property Office.*

As the exhibit shows, unneeded federal properties are identified through one of two systematic methods: the required annual survey of real property holdings or through search and analysis of the Federal Real Property Profile database that lists the building, structure and land assets held by each agency.[32] At the state level in North Carolina, DOA does not systematically identify unneeded and underutilized property and has delegated this responsibility to state agencies and institutions. This delegation is problematic because, as a 2012 Subcommittee on Surplus Property of State-Owned Assets found, agencies are reluctant to identify surplus property.

[31] N.C. Gen. Stat. § 146 27.(a).

[32] Only 24 federal agencies are required to report their real property through the Federal Real Property Profile database: the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, the Interior, Justice, Labor, State, Transportation, the Treasury, and Veterans Affairs; Environmental Protection Agency; General Services Administration; National Aeronautics and Space Administration; National Science Foundation; Nuclear Regulatory Commission; Office of Personnel Management; Small Business Administration, Social Security Administration; and United States Agency for International Development.

State law allows for disposal by means of sale, lease, rental, and gift. [33] However, as Exhibit 12 shows, DOA limits disposal to reallocation and sale. Despite statute allowing DOA to dispose of real property through gift, DOA contends the State is not interested in giving real property away and that sale through fair market value is the preferred method. Limiting disposal to sale and reallocation poses challenges for disposing property that is unneeded by other agencies and difficult to sell.

Compare this process to the federal disposal process for federal property. Properties that are no longer needed are reported to GSA as excess or identified as such in the Federal Real Property Profile database.[34] GSA then has 30 days to physically inspect each excess property and conduct an appraisal for fair market value. Following this process, GSA first issues notice of availability, making the property available for transfer to other federal agencies. If, within 60 days of the notice of availability no federal agency wants the unneeded property, it is declared surplus and made available to state and local governments and nonprofits.[35] These entities can receive a discount of up to 100% of the fair market value of the property if they use the property for a public benefit.[36] Surplus property that is not disposed of through the public benefit conveyance process may be sold to state and local governments at fair market value for a negotiated sale. Surplus properties still available after the negotiated sale process may be offered for public sale. The appraised value of a property is used as a guideline for initial pricing, and properties are sold through sealed bids, physical auctions, and Internet auctions.

Retaining interest in unneeded real property results in lost value, negative impact on local economies, tax revenues, and employment, and ineffective property stewardship of the State's real property portfolio. Hence, DOA should be exercising every option to dispose of property that is unwanted or hard to sell.

**Required reporting would improve accountability and enhance DOA's ability to better manage the State's portfolio of real property.** Reporting is an important function of ensuring the performance of a portfolio. A structure wherein DOA is charged with control of real property and agencies and institutions are responsible for day-to-day operations would require agencies and institutions to report to DOA on individual assets and DOA to report on the portfolio as a whole.

State law grants DOA the authority to require any state agency to make reports regarding its land and buildings.[37] However, there are no formalized reporting requirements. Agencies are asked to report on inaccuracies and changes to the real property database, but DOA has not formalized this reporting requirement. Furthermore, as shown in Finding 2,

[33] N.C. Gen. Stat. § 146 27.(a).
[34] 40 U.S.C. §102(3).
[35] 40 U.S.C. §102(10).
[36] For a public benefit conveyance, property must be used for one of the following purposes: homeless services, corrections, law enforcement, public health, drug rehabilitation, education, parks and recreations, seaport facilities, wildlife conservation, highways, emergency management response, historic monuments, public airports, and housing.
[37] N.C. Gen. Stat. § 143-341.(4)(h).

DOA does not require agencies to report critical property performance data.

Requiring reporting on a portfolio of leased and owned assets would provide decision makers with information on strategic priorities, capital allocation, asset performance, asset valuations, price benchmarking, occupancy and utilization, and disposal. Currently, DOA reporting is ad-hoc. DOA is only required to report on a yearly basis to the Joint Legislative Commission on Governmental Operations and to the Fiscal Research Division on leased office space. This document is known as the "Inside/Outside Report" and is limited to leased property. Given that the annual value of state-owned assets is an estimated $26 billion and the annual value of leased property is estimated at $65 million, decision makers currently receive information on less than 1% of the total value of the State's portfolio of real property. Expanding DOA's reporting requirement to include information about the State's entire portfolio of real property would ensure the activities associated with portfolio management are being implemented.

DOA claims it does not have the personnel to meet additional reporting requirements. However, in many cases these data already exist. A Program Evaluation Division survey of agencies and institutions found 39% of agencies already track critical asset performance measures identified by this finding.

**Outsourcing transaction-based activities of the State Property Office could free up existing DOA resources to more actively manage and control the State's portfolio of real property.** Georgia's State Properties Commission is an administrative body similar to the SPO in its responsibility to control real property, maintain an accurate and complete inventory of state real property interest, and prepare acquisition and disposal transactions. This office has outsourced new and existing lease transactions to a commercial real estate firm at no cost to the State of Georgia. [38] The vendor brokers multi-year leases on behalf of the state and earns its commission from the landlord for executing the lease. In addition, a portion of the vendor's earnings goes to a fund that the State Properties Commission can use to procure assistance on other strategic priorities related to the State's portfolio of real property. The state of Georgia estimates this contract has resulted in $8.4 million in cost avoidance since 2013.

PED estimates outsourcing leasing transactions would free up an estimated 10.7 FTE within the SPO. These individuals could be reassigned to carry out practices and activities more closely aligned with managing and controlling the State's portfolio of real property.

In summary, DOA is not fully engaged in managing and controlling the State's portfolio of real property. DOA does not perform many practices associated with portfolio management and has delegated day-to-day management of real estate assets to state agencies with minimal guidance and oversight to ensure statewide consistency. PED has observed DOA's

[38] Cassidy Turley is the vendor providing commercial real estate services to the State of Georgia.

passive approach to managing state assets during prior evaluations of passenger motor vehicles and submerged lands.[39] More stringent required reporting would ensure better oversight while outsourcing of lease transactions would ensure sufficient resources exist to more actively manage the State's portfolio of real property.

**Finding 4. Discrepancies in the database and insufficient access controls jeopardize the completeness, accuracy, and security of North Carolina's inventory of real property.**

The Department of Administration (DOA) has a statutory duty to prepare and keep current a complete and accurate inventory of all lands and buildings owned or leased by the State or by any state agency.[40] For land assets, the inventory must show the location, acreage, description, source of title, current use of all land, and the agency to which each tract is currently allocated. For each building, statute requires information on the location, amount of floor space and floor plans, and the agency to which each building, or space therein, is currently allocated.

The State Property Office (SPO), organized under DOA, manages the inventory database that tracks state property, including buildings, land, and leased office and warehouse space. The database includes a mapping function for land assets and is designed to record property transactions such as acquisitions, dispositions, and leases of state property to non-state entities. SPO created the database in 1980 on the mainframe and added a mapping functionality in 1992. In 2007, SPO upgraded the database to include additional fields and made the inventory available online.

**DOA has not established a formalized reconciliation process to ensure the accuracy and completeness of the State's inventory.** As a result, the department relies on the discretion of each agency to review its records against the SPO database in order to identify and report discrepancies. A Program Evaluation Division survey of agencies and institutions found only 6% of agencies reconcile real property data on a regular basis. More than half (52%) of agencies and institutions responded that they reconcile data as needed while 42% do not reconcile their records against the SPO inventory at all. Performing reconciliation with such infrequency prevents the State from having reasonable assurance of the validity and accuracy of its real property data.

**The lack of a formalized reconciliation process has resulted in instances in which the State's inventory of real property was neither complete nor accurate**. Reconciliation is an important way to ensure the completeness and accuracy of data in the State's inventory. Through this process, information about the acquisition, condition, and use of each asset is traced back to its original documentation. Reconciliation involves resolving any discrepancies to ensure the accuracy and validity of data and prevent

[39] Program Evaluation Division. (2012, March). *Motor Fleet Management Uses Best Practices, but Needs Telematics to Strengthen Accountability*. Raleigh, NC: North Carolina General Assembly. Program Evaluation Division (2013, January). *North Carolina Does Not Track Submerged Lands Under Navigable Rivers or Know the Extent of Private Claims*. Raleigh, NC: North Carolina General Assembly.
[40] N.C. Gen. Stat. § 143-431(4)(a)-(b).

unauthorized changes to sensitive information. The Program Evaluation Division attempted to reconcile state property inventory data against physical deeds held by the Department of the Secretary of State for a sample of 377 property records. However, the lack of a common property identifier posed a challenge to reconciliation of electronic inventory records. The Secretary of State matched 264 records, or 70% of the sample. The office reported that the remaining records could not be matched because

- the original deed was never filed with the Secretary of State; or
- the record from the SPO database did not contain adequate information to perform the match to the original deed with any degree of certainty.

The Secretary of State indicated that its ability to reconcile electronic inventory records with the physical deeds would be improved if SPO adopted the Secretary of State filing number allowing for ease of matching and reconciliation.

**Site visits identified additional discrepancies in the information listed in the SPO database.** These discrepancies are described below.

- **Building not listed in the inventory.** The SPO database lists land at 3130 Garner Road in Raleigh as being allocated to the Department of Public Safety (DPS). A site visit revealed the existence of a dilapidated house on this property that is not included in the list of state-owned buildings in the database. Wake County tax records indicate this property has been owned by the State of North Carolina since 2011. Observations indicated that the house was not boarded up, did not have a No Trespassing sign posted, appeared to have fire damage, had utility infrastructure removed, and had evidence of squatters.

- **Allocation of space not recorded in the inventory**. The SPO database lists the land and buildings located at 1401 Hodges Street in Raleigh as being allocated to DPS. However, site visits identified space on the property used by the Department of Environment and Natural Resources (DENR) for storage. DPS does not charge DENR for the use of its facility, even though DPS pays to insure this property and its contents.

- **Vacant property not listed as "vacant" in the inventory**. The SPO database lists 15 vacant properties in downtown Raleigh as allocated to DOA. The Farlow House located at 412 N. Wilmington Street is not listed as one of these vacant properties, but Program Evaluation Division staff observed that the property is empty and unoccupied as of March 2015.

A previous Program Evaluation Division report noted that the SPO database does not track lands submerged under navigable rivers.[41] Submerged lands are defined in North Carolina law as being "State lands which lie beneath any navigable waters within the boundaries of this State,

[41] Program Evaluation Division (January 2013). *North Carolina Does Not Track Submerged Lands Under Navigable Rivers or Know the Extent of Private Claims.* Raleigh, NC: North Carolina General Assembly.

or the Atlantic Ocean to a distance of three geographical miles seaward from the coastline of this State.[42] Despite its statutory duty to maintain an inventory of state-owned land, DOA does not specifically track submerged lands. DOA justifies the lack of a comprehensive inventory of submerged lands because it assumes that all lands submerged under rivers are sovereign land.

Lastly, the SPO database does not correctly list assets belonging to entities recently transferred to DPS as being allocated to DPS. NC Session Law 2014-100 directed Type II transfers of the North Carolina Alcohol Beverage Control (ABC) Commission and the State Bureau of Investigation (SBI) to DPS effective August 2014.[43] The SPO database lists the SBI real property assets under DPS, but lists the ABC Commission assets under the Department of Commerce.[44] This delay in updating the SPO database is problematic because the Department of Insurance uses the inventory to bill state agencies for premiums to insure state-owned property and contents in owned and leased property. Taken together, these results call into question the accuracy and completeness of the State's inventory of real property.

**Weak system access controls jeopardize the security of the real property inventory database.** The SPO database is available online and allows members of the general public to search the State's real estate property records.[45] The website also contains a secure area where authorized users from state agencies can log in to track projects, view agency-specific reports, and report bugs. In October 2014, Program Evaluation Division staff accessed a report that listed all authorized users on the website and identified 11 generic accounts. [46] PED identified what appeared to be an administrator account from this list (ISG) and easily gained access to administrative functions of the SPO database. Once logged in to the system under the Administration tab, PED could access many administrative functions, including adding or deleting agency users, modifying fields appearing in the property databases, and modifying formats/criteria for reports to be run from the database for public users. This username and password also granted access to the queries and results of the agency utilization survey and allowed PED staff to edit and delete survey material and results. After PED notified DOA, the department corrected the issue for the ISG account.

In February 2015, PED tested the security of the database again using another generic account on the list to gain access to the secure section of the website by entering the username as the password (READONLY). This account had permission to access the project tracking section of the site used to enter information on land acquisitions, dispositions, and leases of state-owned land. In addition, this account had permission to update,

[42] N.C. Gen. Stat. § 146-64.
[43] Session Law 2014-100 also directed a Type I transfer of the Division of Criminal Information of the Department of Justice to the Department of Public Safety.
[44] As of March 2015.
[45] The State Property Office database can be accessed online at http://www.ncspo.com/fis/dbRealEstateSearch.aspx.
[46] The Program Evaluation Division first identified this issue in June 2013, but did not inform the department because the evaluation project was delayed until October 2014.

delete, and modify the minutes for Council of State agendas maintained on the website.

The use of generic accounts increases the chances that unauthorized individuals will access and intentionally misuse sensitive information. If generic accounts must be used, industry experts recommend that companies provide a method of accountability for greater security and ease of use.[47] For example, a digital password vault could be used to store or randomly generate passwords for generic accounts. Authorized users can retrieve passwords as needed and an accurate list of which individuals know the password can be created.

**The accessibility of the SPO database does not follow statewide policies and procedures for information security**. The 2015 Statewide Information Security Manual discourages the use of generic accounts once a system has been put into production.[48] State policy directs agencies to

- assign user credentials individually and uniquely to prevent unauthorized access to agency networks;
- disable user credentials inactive for more than 90 days; and
- require passwords of at least eight characters in length for access to all systems and applications.

In addition, access to the SPO database does not involve the use of North Carolina Identity Management (NCID), the standard identity management and access service for the State of North Carolina. NCID, which is operated by the Office of Information Technology Services, allows state, local, business, and individual users to register for a username and password that can be used to access various online applications administered by state and local agencies. NCID provides a high degree of security and access control to real-time resources by adhering to strong password policy.[49] In addition, NCID passwords must be changed every 90 days. Use of NCID for the SPO database would minimize the potential to compromise the inventory and related information accessible online. DOA officials stated that all concerns with weak access controls identified during this evaluation have been addressed. Further, the agency plans to use NCID for access to the SPO database by the end of Fiscal Year 2014–15.

In summary, the Program Evaluation Division identified several issues that raise questions about the completeness and accuracy of the State's inventory of real property. Physical deeds associated with inventory records could not be identified for 30% of a sample of records. Site visits identified additional discrepancies in the inventory database, such as buildings not listed as vacant or not listed at all. Furthermore, the SPO database does not follow statewide policy for information security, increasing the chances that unauthorized individuals will have access to and could intentionally misuse or delete inventory records.

[47] Doidan, G. (2004). Generic Accounts and Non-Repudiation: Global Information Assurance Certification Paper. Bethesda, MD: SANS Institute. Available online: http://www.giac.org/paper/gsec/3940/generic-accounts-non-repudiation/106335.
[48] Enterprise Security Risk Management Office (January 2015). *Statewide Information Security Manual*. Raleigh, NC: Office of the State Chief Information Officer. Available online: https://www.scio.nc.gov/library/pdf/SISM-1-2015.pdf.
[49] Strong passwords must contain a minimum of eight characters and no more than 35 characters, must contain at least one number, and are limited in the number of characters that can be used sequentially and/or consecutively.

# 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 | 16,448 | Dispose | 3,500 |
| | **Total** | | **$14,304,574** | **$ 138,225** | | **$ 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).

## PED Response to DOA Formal Response

Based upon the North Carolina Department of Administration response to this report, it is apparent that the department by policy and practice has not asserted its authority nor accepted responsibility for facilities and real property management in state government. Previously, the Program Evaluation Division has reported similar inefficiencies in state government functions over which the Department of Administration was responsible, shared responsibility, or could have taken more initiative. [55]

**DOA Response, Page 1, paragraph 2:** *DOA feels compelled to comment on several of the findings and recommendations contained in the report (highlighted in bold type) since some of the information, findings and recommendations are inaccurate, incomplete and misleading relative to the activities, responsibilities and efforts of the State Property Office.*

**Program Evaluation Division Response:** As part of the PED evaluation process DOA had the opportunity to review a preliminary draft of the report and provide a technical response. The purpose of the technical response is to provide concrete examples of errors, omissions, and inaccuracies of fact. DOA chose not to provide the evaluation team with a technical response.

**DOA Response, Page 2, paragraph 3:** *The General Assembly should direct the DOA to develop and implement a strategic facilities plan and a performance management system for the State's portfolio of real property.*

*This component of Recommendation I fails to recognize the responsibilities of agencies in the development of a strategic facilities plan. Agencies are delegated the responsibility for their legislative programmatic functions and responsibilities. Therefore, the responsibility for defining programmatic requirements rests with the individual agencies. Agencies are in the best position of determining the resources required to meet their mission. The State Property Office is not in a position to evaluate or judge a given agency's program or mission dependency of real property to support that mission.*

**Program Evaluation Division Response:** As part of Recommendation 1, page 35 of the report states, "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." The SFP should be based on agency-level facility management plans. The recommendation does not require DOA to evaluate or judge a given agency's programmatic needs or its determinations of the mission

[55] Program Evaluation Division Reports:
- *Motor Fleet Management Uses Best Practices, but Needs Telematics to Strengthen Accountability (*March 2012).
- *Ineffective Policies and Diffuse Oversight Result in Inefficient Use of State-Owned Vehicles* (April 2012).
- *Options for the Indian Cultural Center Will Allow the Site to Meet its Cultural, Recreational, and Economic Development Intent* (December 2012).
- *North Carolina Does Not Track Lands Submerged under Navigable Rivers or Know the Extent of Private Claims* (January 2013).
- *Addressing Deficiencies in State Purchasing and Contracting,* Program Evaluation Division Activities and Accomplishments, 2008–2014, March 23, 2015, page 30.
- *North Carolina Should Eliminate the Use of Personal Services Contracts in Favor of Using Existing Mechanisms* (February 2015).

dependency of real property assets. The recommendation suggests the strategic plan 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 Response, Page 2, paragraph 3:** *Lack of an overall statewide strategic plan and goals is an outcome of the budgeting process and management responsibilities delegated to individual agencies.*

**Program Evaluation Division Response:** As stated in Finding 3 on page 25 of the full report, the Strategic Facilities Plan is a necessary portfolio management tool because it identifies the type, quantity, and location of spaces required to fully support an organization and includes an in-depth analysis of existing facilities' locations, capabilities, utilization, and condition. DOA is charged with the duties and responsibilities associated with real property control and oversight. PED asserts portfolio management is a function of real property control and oversight.

**DOA Response, Page 3, paragraph 2:** *The Department certainly can adopt the methodology and criteria for "utilization" that is employed by FRPC and add a field to the database for this element.*

**Program Evaluation Division Response:** Recommendation 1 on page 36 of the report does not reference the Federal Real Property Council (FRPC). The recommendation states the General Assembly should require DOA 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.

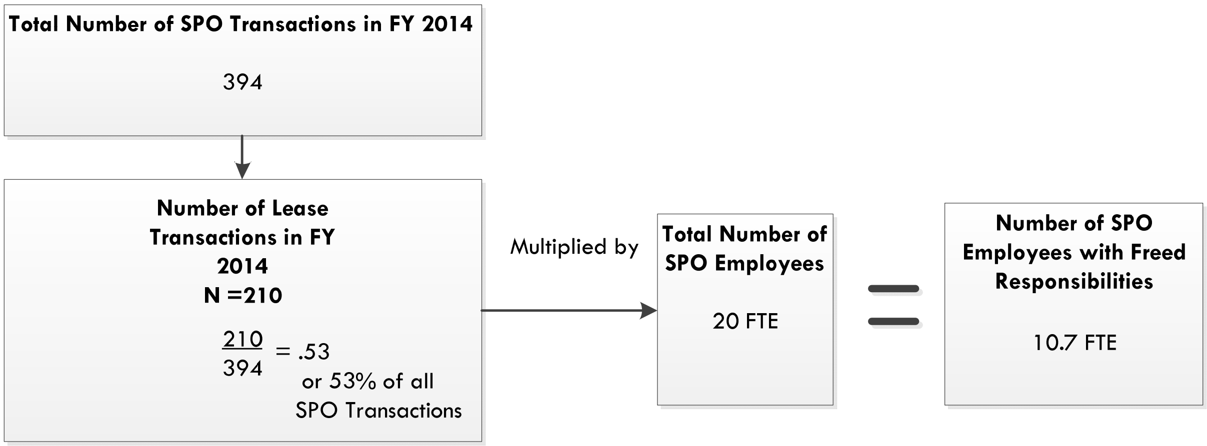
**DOA Response, Page 4, paragraph 3 & 4:** *Department disagrees with the conclusion of outsourcing acquisition transactions as referenced in the report in order to free up existing staff. The idea that outsourcing lease transactions to a commercial real estate firm similar to that employed by the Georgia State Property Commission will he at no cost to the state is simply not accurate. The State Property Office is unaware of any real estate broker or real estate sales person that works for free. The real estate commissions landlords pay to a tenant representative are added to the lease rate charged. Therefore, there will be an increased cost to the State that will be absorbed and reflected in the lease rate. North Carolina has extensive experience in this area. Under a pilot program in 2005, over a 17 month period using a tenant representative, the 100 leases handled by the tenant representative were $.90/sf higher than the rates State Property Office achieved for the 73 leases the State Property Office completed during the same period. In response to two surveys sent out to landlords and agencies, only 28% of all agencies, 0% of major agencies, and 30% of landlords believe the tenant representative had added value to the State's leased process. Responses to other questions in the survey were likewise unfavorable regarding the tenant representative performance.*

**Program Evaluation Division Response:** In order to independently confirm these findings, PED requested the data used to generate the cost comparisons; however, DOA failed to provide data to perform the analysis. PED has concerns about the conclusions DOA has drawn from its cost comparison analysis because many of the 73 leases retained by DOA during the trial period were leases with other government entities. It is reasonable to assume that intergovernmental lease rates would be lower than private market lease rates. Because DOA did not comply with our request to provide these data, PED could not confirm this assumption.

**DOA Response, Page 4, paragraph 5 & 6:** *The Department strongly disagrees with the PED report that no additional personnel or resources are required to meet the duties and responsibilities contained in the components of Recommendation l. Previous studies have indicated a requirement of 15 additional staff and nearly $600,000 (in 2006 dollars) just for implementation of the real property disposal system alone. This does not reflect the additional requirements of the directives to the Department contained in Recommendation l.*

*PED estimated that outsourcing leasing transactions would free up an estimated 10.7 FTE within the State Property Office for other functions. The math is interesting given that the entire staff in the State Property Office devoted to leasing transactions consist of 4 FTE.*

**Program Evaluation Division Response**: The State Property Office is a transaction-based office. PED calculations focused on personnel resources across the entire office that would be freed up by outsourcing lease transactions. Our analysis of acquisition and disposal transactions shows the following:




**DOA Response, Page 5, bulleted section:** *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): This data element is already included in the building asset database. It would be redundant to keep this as a data element in the real property table since the State Property Office already maintains a spatial database (GIS) for real property.*
- *Utilization: This data element already exists in report form in the Agency Utilization Survey and can be added to the database.*

**Program Evaluation Division Response:** DOA is correct; location, in terms of physical street address, is an element captured by the inventory database. However, 267 assets listed show no record of a street address. Furthermore, the spatial data mentioned in the response is limited to land assets and does not provide latitude and longitude information for state-owned buildings and leases. PED has concerns with incorporating the data from the utilization survey into the database because the utilization survey data are outdated; as the response states, this questionnaire was conducted in 2007. Furthermore, the utilization data is inadequate because utilization was not captured as a quantifiable measure. Lastly, the survey was incomplete because it was only piloted across four agencies.

Page 37 of the report recommends the General Assembly require DOA to develop a standardized procedure for measuring utilization of buildings and structures. PED recommends 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. These data would be reported to DOA annually and would ensure standardized collection of quantifiable utilization rates statewide.

**DOA Response, Page 6, last paragraph:** *Although it may not have been readily apparent to PED, State Property does review informally for available State-owned space prior to initiating an advertisement for leased space. It should be noted that even if there is vacant state-owned space, it may not be feasible or practical to relocate an agency from leased space to state-owned space.*

**Program Evaluation Division Response:** Informal review for state-owned space is inadequate given DOA is **formally** charged in statute with the control and oversight of real property. Furthermore, without quantifiably tracking utilization, formal or informal review is inconclusive. Lastly, a review of State Property Office documents shows there are not policies or procedures in place to ensure that the review for available state-owned space is standard and consistent.

**DOA Response, Page 7, paragraph 2:** *The report indicated that the State Property Office does not compare performance against the private sector and notes that GSA partners with the Logistic Management Institute to measure and analyze leasing performance relative to industry. Although the Logistic Management Institute is a non-profit, there can be a substantial charge for their services. If the General Assembly feels that benchmarking against the private sector is critical, the Department would welcome appropriations to cover the contractual cost for such services. State Property essentially benchmarks every time a lease is advertised. Responses to lease Request for Proposals (RFP) are compared to current lease rates in effect. The State Property Office has the authority to enter into multi-year leases and negotiate with proposers to obtain the lowest price possible. For informational purposes, the State Property Office prepared the following:*

**Comparison of Lease Rates in the Raleigh Area**

| Entity | Measurement | # of Leases | Full Service Rate |
|---|---|---|---|
| State of NC | Net | 107 | $16.12 ($15.31)[1] |
| Private | Rentable | 308 | $17.03[2] |
| GSA | Rentable | 23 | $21.69[3] |

Conclusion: For Benchmarking purposes the State rate is $1.72/SF lower than the Private Raleigh Office market and $6.38/SF lower than the GSA office locations in Raleigh.

[1] The rate of $16.12/net SF comes from the "inside/outside" report dated June 1, 2015 and represents office leases inside the Capital area. Net measurement standard used by the State reflects an approximate 5% efficiency compared to rentable measurements. Therefore, the State rate of $16.12/net SF has been reduced to $15.31 for comparison purposes.

[2] Numbers from "SPACE", 1"' Quarter 2015, a publication of Triangle Business Journal, for private office space in 11 submarkets in Raleigh. Buildings rated B&C since the average building leased by the State is rated B-.

[3] GSA leased Raleigh office locations as of April2015. GSA estimates occupancy at 28.1 %.

**Program Evaluation Division Response:** PED was not given the opportunity to review this information because DOA did not provide it prior to submitting its formal response. The information provided in the table above reflects the type of data and information that agencies typically provide as part of their technical responses, which DOA chose not to provide. As a result, PED could not evaluate or confirm the information provided. Furthermore, PED has concerns about the conclusions drawn from the analysis as evidence of benchmarking because DOA only includes office leases inside the capital area. The comparison does not take into account leases in other areas of the state or leases for other types of facilities such as storage spaces. As stated in Recommendation 1 on page 39 of the report, PED recommends the General Assembly direct DOA to actively manage the State's portfolio of real property, which includes benchmarking for comparable private sector leases across the regions of the state for both rural and urban locations. PED does not recommend DOA outsource this oversight activity. Given that DOA was able to provide partial benchmark comparisons for purposes of the agency's formal response, PED is confident DOA would be able to scale this effort to leases across the regions of the state for both rural and urban locations for annual reporting purposes.

## Agency Response

A draft of this report was submitted to the Department of Administration for review. Its response is provided along with this report.

## Appendices

The appendices appear following the Department of Administration's formal response.

Appendix A: Summary of State-Owned Buildings by Agency and County

Appendix B: Summary of State-Owned Land by Agency and County

Appendix C: Summary of State-Leased Office and Warehouse Spaces by Agency and County

## Program Evaluation Division Contact

For more information on this report, please contact the lead evaluator, Sean Hamel at sean.hamel@ncleg.net.

Staff members who made key contributions to this report include Brent Lucas and Pamela L. Taylor. John W. Turcotte is the director of the Program Evaluation Division.

# North Carolina
# Department of Administration

Pat McCrory, Governor

Bill Daughtridge, Jr., Secretary

June 9, 2015

Mr. John W. Turcotte, Director
Program Evaluation Division
North Carolina General Assembly
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603-5925

RE: Evaluation of Real Property

Dear Mr. Turcotte:

The North Carolina Department of Administration (DOA) appreciates the work and effort of the Program Evaluation Division (PED) in a study of the efficiency and effectiveness of the legal and administrative process for identifying and disposing of unused, underutilized, or surplus real property owned and maintained by state agencies and universities. The PED staff spent numerous hours reviewing database information, review of other similar programs, conducting interviews with State Property Office staff, and conducting on-site visits to obtain a better understanding of the process and procedures currently in place which are employed by the State Property Office to manage the real property assets of the State. The professionalism and courtesy of PED staff during this study was greatly appreciated by DOA.

The report has been carefully reviewed from the context of gaining PED's perspective regarding improvements in operating policies and procedures. This has been a worthy effort and provided the Department with a valuable outside evaluation of current processes and procedures. However, DOA feels compelled to comment on several of the findings and recommendations contained in the report (highlighted in bold type) since some of the information, findings and recommendations are inaccurate, incomplete and misleading relative to the activities, responsibilities and efforts of the State Property Office. The Departments response and commentary is provided to place a proper perspective on conclusions drawn from the report.

Although implementation of recommendations in several areas may be problematic without statutory authorization and additional resources, it is the Department's intent to employ recommended changes where feasible and practical within the context of existing resources.

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**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 Department of Administration agrees with the premise of an increased and active management of the State's real property. However, the Department disagrees with many of the findings contained in the report that 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.

Certainly there is no disagreement with Finding 1 that disposing of unneeded real property and elimination of leases would generate both one-time and future savings. Identification of unneeded and underutilized real property historically has been problematic primarily due to the system of allocation of property to the using agencies and the agencies perception of ownership.

**The General Assembly should direct the DOA to develop and implement a strategic facilities plan and a performance management system for the State's portfolio of real property.**

This component of Recommendation 1 fails to recognize the responsibilities of agencies in the development of a strategic facilities plan. Agencies are delegated the responsibility for their legislative programmatic functions and responsibilities. Therefore, the responsibility for defining programmatic requirements rests with the individual agencies. Agencies are in the best position of determining the resources required to meet their mission. The State Property Office is not in a position to evaluate or judge a given agency's program or mission dependency of real property to support that mission. It should be noted that the manual developed by CBRE recommended that agencies deliver a Real Estate Portfolio Assessment report to the State Property Office every two years. The report was to be an extension of each agencies Master Plan.

The PED report was critical of the State Property Office for not managing the State's portfolio of real property, i.e. strategic planning, performance management, utilization, etc. Conducting these functions from a statewide perspective requires both funding and staff. Lack of an overall statewide strategic plan and goals is an outcome of the budgeting process and management responsibilities delegated to individual agencies.

The 2007 State Government Facilities Master Plan referenced in the PED report was limited to State-owned property in Wake County and administered through the State Construction Office. Comparing this plan to the 1995 Capital Area Master Plan for State Government illustrates the difficulty of master planning due to changing priorities that come with different administrations and General Assemblies. Funding was not provided for a comprehensive statewide plan.

The State Property Office does review agency plans where available when agency requests are made for property acquisitions. The best example is the State Parks system. State Parks have developed Master Plans for each park. These are referred to for guidance and support of property acquisitions.

The PED report notes that the Department of Administration's Performance Management System Tracks Processes But Lacks a Portfolio Focus. The Performance Management System in place was developed by the previous administration under the guidance and direction of the Office of State Personnel. The performance system was designed to be process oriented and is reflected in the performance measures developed for all divisions within the Department of Administration.

**The General Assembly should require DOA to develop a standardized procedure for measuring utilization of buildings and structures.**

The PED report under Finding 2 states that the Department does not measure or track utilization. The PED report compares the State Property Office to several federal agencies that have performance measures. In particular, the PED report references the GSA Federal Real Property Council (FRPC). As stated in the PED report, the federal government's General Services Administration's (GSA) Federal Real Property Council (FRPC) was created to promote efficient and economical use of federal real property assets. To carry out this objective the FRPC established and defined 25 mandatory data elements to be captured at the asset level and reported by all federal agencies to GSA. (Note: The PED references 23 data elements; however, the source document contains 25 data elements.) The utilization of buildings and structures is one of those data elements. Currently, the State Property Office database does not have a field for utilization. The 25 data elements referenced in the report being captured by FRPC are agency driven, calculated and reported. Further, the criteria in the FRPC manual used for determining the first-tier data elements noted in Exhibit 9 of the PED report could be characterized as subjective in the context of relevancy and usefulness. For example, for office space, to be considered or classified as "utilized", using the FRPC criteria, requires occupancy of 75% based on capacity; for warehouse space, only 50%.

The Department certainly can adopt the methodology and criteria for "utilization" that is employed by FRPC and add a field to the database for this element.

**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 Department of Administration is willing to develop plans as directed by the General Assembly. However, it needs to be noted that the plan as outlined by PED will require additional staff and funds for implementation.

**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 Department of Administration retained a consultant, CB Richard Ellis (CBRE), for the development of a uniform real property disposal system and it is believed that a report was made to the General Assembly in March 2005. The report contained many of the same recommendations found in the PED report, moving toward portfolio management, real estate assessment, and a property disposal system. In addition, the CBRE report recommended IT system upgrades, additional staffing requirements for implementation and addressed the importance of agency relationship and interface critical to the success of property analyses. There was a surplus property disposition flowchart developed as part of the report which was provided to PED.

CBRE developed a Surplus Property Disposal System Methodology in 2006 that would be part of broader portfolio management strategy. The manual developed recommended that agencies deliver a Real Estate Portfolio Assessment report to the State Property Office every two years. The report was to be an extension of each agencies Master Plan. Agencies were to identify and quantify need for space using the developed assessment process.

In 2007, a pilot project was started with several agencies (Department of Correction, DENR-Parks and Recreation, Department of Administration) and East Carolina University. The agencies were tasked with updating a sample portion of their real estate portfolio utilizing the Agency Utilization Survey that is part of the system. To implement the system statewide as developed by CBRE and for the program to be successful it needed to go beyond a mere recommendation and backed by legislative mandate and resources. This has not occurred.

The PED report noted the Subcommittee on Surplus Property of State-Owned Assets convened by the General Assembly in 2012. The Subcommittee recommended, consistent with the CBRE report, requiring each agency to evaluate its property for utilization every two years and submitting a detailed report to DOA. Draft legislation addressing the findings was introduced during the 2013 session but was not enacted.

For successful implementation of a surplus property disposal system, the Department requires the support of the General Assembly in directing agency cooperation and commitment to the process. Without further study and evaluation, the Department can not endorse modeling the State's property disposal system after the federal process. A review of the federal references cited in the PED report as model programs revealed flaws and deficiencies in processes.

**To ensure DOA is actively managing the State's portfolio of real property, the General Assembly should also amend state law to expand DOA's real property reporting requirements.**

The Department will provide any and all reports mandated by the General Assembly. Again, without further study and evaluation, the Department can not endorse modeling an annual report on a federal real estate assets report submitted by the Federal Real Property Council. The General Assembly needs to acknowledge that research and preparation of detailed reports as recommended by the PED report is time consuming and will require additional staff time and resources.

The Department disagrees with the conclusion of outsourcing acquisition transactions as referenced in the report in order to free up existing staff. The idea that outsourcing lease transactions to a commercial real estate firm similar to that employed by the Georgia State Property Commission will be at no cost to the state is simply not accurate. The State Property Office is unaware of any real estate broker or real estate sales person that works for free. The real estate commissions landlords pay to a tenant representative are added to the lease rate charged. Therefore, there will be an increased cost to the State that will be absorbed and reflected in the lease rate. North Carolina has extensive experience in this area. Under a pilot program in 2005, over a 17 month period using a tenant representative, the 100 leases handled by the tenant representative were $.90/sf higher than the rates State Property Office achieved for the 73 leases the State Property Office completed during the same period. In response to two surveys sent out to landlords and agencies, only 28% of all agencies, 0% of major agencies, and 30% of landlords believe the tenant representative had added value to the State's leased process. Responses to other questions in the survey were likewise unfavorable regarding the tenant representative performance.

The Department strongly disagrees with the PED report that no additional personnel or resources are required to meet the duties and responsibilities contained in the components of Recommendation 1. Previous studies have indicated a requirement of 15 additional staff and nearly $600,000 (in 2006 dollars) just for implementation of the real property disposal system alone. This does not reflect the additional requirements of the directives to the Department contained in Recommendation 1.

PED estimated that outsourcing leasing transactions would free up an estimated 10.7 FTE within the State Property Office for other functions. The math is interesting given that the entire staff in the State Property Office devoted to leasing transactions consist of 4 FTE.

**Recommendation 2. The General Assembly should direct the Department of Administration to modify the State's inventory of real property to ensure its completeness, accuracy, and security.**

The Department disagrees with the finding that the State's inventory of real property does not currently allow for the tracking of critical information for identifying unused, underutilized, and unneeded property. (Note: This finding is contained in Finding 2 of the report instead of Finding 1.)

Under Finding 2, PED states that the Department does not have standards regarding the disposition of real property, does not maintain the data necessary to make decisions regarding the disposition of real property, does not track mission dependency, does not measure the condition of assets, and does not measure or track utilization. As previously stated, the PED report compares the State Property Office to several federal agencies that have performance measures. In particular, the PED report references the GSA Federal Real Property Council (FRPC). The 25 data elements referenced in the report being captured by FRPC comes from a report not referenced by PED, "2008 Guidance For Real Property Inventory Reporting". A comparison was made with the State Property Office database of the twenty-five data elements. The State Property database currently tracks seventeen of the twenty-five elements. Several of the FRPC data elements such as the Congressional District and the Legal Interest Indicator do not appear to be relevant for the State's purposes. Two of the data elements noted by PED as first-tier, Condition Index and Annual Operating Cost, can be incorporated into the State Property database and two other data elements, the Utilization and Mission Dependency are captured on an agency questionnaire developed as part of the CBRE efforts in 2007 and, likewise could be incorporated into the database... It should be noted that the data elements in the FRPC reporting system are agency driven, calculated and reported.

Again, without independent verification of agency reporting, the database is only as reliable as the agencies reporting the data.

**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): This data element is already included in the building asset database. It would be redundant to keep this as a data element in the real property table since the State Property Office already maintains a spatial database (GIS) for real property.
- Mission dependency: This data element already exists in report form in the Agency Utilization Survey and can be added to the database.
- Condition: This data element can be added. Reported as calculated by the Agency.
- Estimated cost of repair and renovation: The State Property Office database does not include estimates for repair needs developed through the Facility Condition Assessment Program (FCAP) process in the State Construction Office. However, the FCAP database maintained by the State Construction Office utilizes the **State Property Office's asset number** to identify the State's building assets. This common identifier can be utilized to join/link the databases.
- Annual Operating and maintenance cost: This data element can be added. Reported as calculated by the Agency.
- Number of usable work spaces: This data element can be added. Reported as calculated by the Agency.
- Number of full time equivalent positions assigned the site: This data element can be added. Reported as calculated by the Agency.

- Utilization: This data element already exists in report form in the Agency Utilization Survey and can be added to the database.

**To improve of security of the State's inventory or real property, the general Assembly should direct DOA to comply with statewide policies and procedures for information security.**

All of the security concerns pointed out by PED during the report study period are in the process of being corrected. The State Property Office will be utilizing NCID with its database by the end of this fiscal year.

**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.**

The Department of Administration agrees with Recommendation 3 and all components with the exception of allowing the State Auditor to charge the State Land Fund for review and certification of agency data. The fund not only provides salary support to the State Property Office, but also, provides a source of funds to support operational requirements and business activities required by the State Property Office for the proper conduct of business (appraisals, surveys, map production, etc.).

**Recommendation 4. The General Assembly should direct the Department of Administration to dispose of the unused, unneeded, and underutilized property identified in this report.**
The State Property Office is actively working with the Department of Agriculture and Consumer Services regarding the sale or disposition of the properties listed in Exhibit 13.

Regarding the Oil Dock, Fabrication, and Storage Facility listed in Exhibit 13, the Department of Justice and Public Safety (DPS) has not declared that property as surplus. Therefore, there is no activity on the part of the State Property Office related this property. DPS has indicated that the property is needed by the department.

Regarding the vacant historic houses in the state government complex as mentioned in the report, DOA is considering selling the Gay, Worth, Watson, Cambridge, Lamar and Ashley Houses along Person Street preferably as a block or individually "as is where is" with a shared access/driveway (an existing curb cut on North Street between the Ashley & Lamar Houses). The Heartt House is planned for renovation for use by the Council for Women. The Farlow House has been repaired and is slated for occupancy by the State Board of Elections. The McGee House is of no historical value and has deteriorated to a point beyond repair and is slated for demolition upon of availability of funds. The Department is systematically reviewing options for the remaining properties in the Blount Street area for renovation and use as State property or disposition.

**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.**

Although it may not have been readily apparent to PED, State Property does review informally for available State-owned space prior to initiating an advertisement for leased space. It should be noted that even if there is vacant state-owned space, it may not be feasible or practical to relocate an agency from leased space to state-owned space. It is an unwise business practice and often very difficult for the State to cancel a lease. Further, the programmatic requirements of the agency is an important consideration in identification of suitable and appropriate State-owned space. Multi-tenant utilization of space (colocation) often presents challenges to the agencies and may not be a practical solution to accommodate space needs. Even the federal government has acknowledged difficulties in addressing multi-tenant situations.

**Supplemental Comments:**

There are several report findings indirectly related to the recommendations that bear separate comment and explanation.

**Finding 3. The Department of Administration does not effectively control and manage the State's portfolio of real property.**

**DOA benchmarking provides limited value because it does not compare performance against private industry standards.**

The report indicated that the State Property Office does not compare performance against the private sector and notes that GSA partners with the Logistic Management Institute to measure and analyze leasing performance relative to industry. Although the Logistic Management Institute is a non-profit, there can be a substantial charge for their services. If the General Assembly feels that benchmarking against the private sector is critical, the Department would welcome appropriations to cover the contractual cost for such services. State Property essentially benchmarks every time a lease is advertised. Responses to lease Request for Proposals (RFP) are compared to current lease rates in effect. The State Property Office has the authority to enter into multi-year leases and negotiate with proposers to obtain the lowest price possible. For informational purposes, the State Property Office prepared the following:

**Comparison of Lease Rates in the Raleigh Area**

| Entity | Measurement | # of Leases | Full Service Rate |
|---|---|---|---|
| State of NC | Net | 107 | $16.12 ($15.31) [1] |
| Private | Rentable | 308 | $17.03 [2] |
| GSA | Rentable | 23 | $21.69 [3] |

Conclusion: For Benchmarking purposes the State rate is $1.72/SF lower than the Private Raleigh Office market and $6.38/SF lower than the GSA office locations in Raleigh.

[1] The rate of $16.12/net SF comes from the "inside/outside" report dated June 1, 2015 and represents office leases inside the Capital area. Net measurement standard used by the State reflects an approximate 5% efficiency compared to rentable measurements. Therefore, the State rate of $16.12/net SF has been reduced to $15.31 for comparison purposes.

[2] Numbers from "SPACE", 1st Quarter 2015, a publication of Triangle Business Journal, for private office space in 11 submarkets in Raleigh. Buildings rated B&C since the average building leased by the State is rated B-.

[3] GSA leased Raleigh office locations as of April 2015. GSA estimates occupancy at 28.1%.

The acquisition or disposition of real property is benchmarked through the appraisal process that is conducted with all such transactions.

**Finding 4. Discrepancies in the database and insufficient access controls jeopardize the completeness, accuracy, and security of North Carolina's inventory of real property.**

**A previous Program Evaluation Division report noted that the SPO database does not track lands submerged under navigable rivers. Submerged lands are defined in North Carolina law as being "State lands which lie beneath any navigable waters within the boundaries of this State, or the Atlantic Ocean to a distance of three geographical miles seaward from the coastline of this State. Despite its statutory duty to maintain an inventory of state-owned land, DOA does not specifically track submerged lands. DOA justifies the lack of a comprehensive inventory of submerged lands because it assumes that all lands submerged under rivers are sovereign land.**

There are valid reasons, both practical and legal, to explain why DOA does not "track" or keep a comprehensive inventory of lands submerged beneath navigable waterways. Developing a detailed inventory of numerous tracts of land submerged beneath navigable rivers would likely be expensive and may result in legal challenges to resolve disputed title claims. One of the proposals listed in Program Evaluation Division Report No. 2013-2 to settle title claims to inland waterways is to utilize a system modeled on the coastal submerged lands claim process. *PED Report No. 2013-2*, pp 13-14. To date, the General Assembly has not directed DOA to initiate such a process and has not provided the necessary funding.

DOA has, however, taken action to assert the State's ownership rights in submerged lands. When a claim of title to a significant portion of the historic bed of the Yadkin River was made publically by a representative of Alcoa Power Generating, Inc. (APGI) at a legislative hearing, DOA, on behalf of the State, filed suit in 2013 in Wake County Superior Court seeking a declaratory judgement to resolve the ownership dispute. *State of North Carolina, Dept. of Administration v. Alcoa Power Generating, Inc.*, 13 CV 010477, Wake County Superior Court. APGI then removed the case to Federal District Court. *State of North Carolina, Dept. of Administration v. Alcoa Power Generating, Inc.*, 5:13-cv-00633-BO, E.D.N.C.

Over the objection of the State, the Court determined it had jurisdiction to decide the matter and has applied, the State contends erroneously, *PPL Montana v. Montana* (132 S. Ct. 1215 (2012)) and the federal standard for navigability. While the suit against APGI is ongoing and far from a final decision, the legal proceedings to date illustrate the point made in the above referenced Program Evaluation Division report that defining "navigability" can be complicated. *PED Report No. 2013-2,* p 17.

Finally, the Department of Administration is appreciative for the opportunity to review and comment on the Program Evaluation Division's report on the management of North Carolina's real property assets and of the work done by the PED to understand the operations of the State Property Office. It has truly been a collaborative effort. The Department stands ready to implement duties and responsibilities as authorized by the General Assembly. With these duties and responsibilities it is the Department's request that the General Assembly provide the necessary financial resources to successfully implement any of the recommendations of this report that are adopted by action of the General Assembly.

Sincerely,

Bill Daughtridge Jr.

Bill Daughtridge, Jr.

# Appendix A: Summary of State-Owned Buildings by Agency and County

**State-Owned Buildings by Agency**

| Agency | Number of Buildings Allocated | Total Square Feet Allocated | Percentage of Statewide Square Feet |
|---|---|---|---|
| The University of North Carolina System | 3,032 | 53,487,490 | 58% |
| Department of Public Safety | 2,310 | 11,917,906 | 13% |
| Department of Transportation | 2,327 | 9,277,902 | 10% |
| Department of Health and Human Services | 711 | 5,248,967 | 6% |
| Department of Agriculture and Consumer Services | 1,262 | 3,584,917 | 4% |
| Department of Administration | 105 | 3,571,548 | 4% |
| Department of Environment and Natural Resources | 1,641 | 1,928,159 | 2% |
| Department of Cultural Resources | 360 | 1,281,120 | 1% |
| Department of Public Instruction | 103 | 751,546 | 1% |
| Office of the Attorney General | 52 | 420,200 | < 1% |
| Department of Commerce | 21 | 419,584 | < 1% |
| General Assembly | 2 | 253,690 | < 1% |
| Department of Justice | 1 | 183,600 | < 1% |
| Office of Information Technology Services | 5 | 132,545 | < 1% |
| Boards and Commissions | 1 | 4,956 | < 1% |
| Office of the Governor | 4 | 2,108 | < 1% |
| **Total** | **11,937** | **92,466,238** | **-** |

Note: Many land holdings within the State Government Complex in downtown Raleigh are allocated to the Department of Administration, which allocates space to agencies both listed (Department of Public Instruction, Department of Commerce, etc.) and not listed (Office of the State Auditor, etc.) in this table; thus, this table does not represent the totals of these entities' allocations within the Complex.

*Source: Program Evaluation Division based on the Department of Administration's property database.*

# Appendix A: Summary of State-Owned Buildings by Agency and County (Continued)

## State-Owned Buildings by County

| County | Number of Buildings | Total Square Feet |
|---|---|---|
| Alamance | 50 | 72,011 |
| Alexander | 14 | 47,230 |
| Alleghany | 57 | 39,452 |
| Anson | 82 | 224,246 |
| Ashe | 98 | 116,634 |
| Avery | 68 | 390,682 |
| Beaufort | 77 | 111,616 |
| Bertie | 36 | 55,536 |
| Bladen | 151 | 173,951 |
| Brunswick | 49 | 136,624 |
| Buncombe | 346 | 2,507,362 |
| Burke | 362 | 1,753,376 |
| Cabarrus | 124 | 467,664 |
| Caldwell | 71 | 139,724 |
| Camden | 10 | 11,006 |
| Carteret | 130 | 1,352,588 |
| Caswell | 85 | 247,284 |
| Catawba | 64 | 194,301 |
| Chatham | 152 | 147,282 |
| Cherokee | 28 | 60,348 |
| Chowan | 27 | 44,503 |
| Clay | 6 | 4,777 |
| Cleveland | 71 | 152,211 |
| Columbus | 94 | 294,858 |
| Craven | 101 | 371,418 |
| Cumberland | 131 | 1,376,196 |
| Currituck | 36 | 61,252 |
| Dare | 88 | 376,456 |
| Davidson | 62 | 126,563 |
| Davie | 37 | 73,412 |
| Duplin | 54 | 110,435 |
| Durham | 298 | 2,498,603 |
| Edgecombe | 77 | 184,708 |
| Forsyth | 155 | 2,044,639 |
| Franklin | 44 | 170,944 |
| Gaston | 76 | 133,200 |
| Gates | 29 | 35,687 |
| Graham | 10 | 12,813 |
| Granville | 354 | 2,537,128 |
| Greene | 51 | 223,893 |
| Guilford | 410 | 6,448,983 |
| Halifax | 191 | 476,998 |
| Harnett | 86 | 245,768 |
| Haywood | 128 | 188,467 |
| Henderson | 94 | 307,683 |
| Hertford | 28 | 66,465 |
| Hoke | 78 | 334,097 |
| Hyde | 40 | 206,960 |
| Iredell | 117 | 185,933 |
| Jackson | 146 | 2,011,920 |
| Johnston | 189 | 351,567 |
| Jones | 13 | 12,895 |
| Lee | 43 | 105,853 |
| Lenoir | 260 | 2,086,600 |
| Lincoln | 32 | 79,676 |
| Macon | 43 | 78,023 |
| Madison | 20 | 29,775 |
| Martin | 35 | 326,944 |
| McDowell | 107 | 445,218 |
| Mecklenburg | 191 | 4,447,400 |
| Mitchell | 26 | 182,143 |
| Montgomery | 89 | 250,421 |
| Moore | 95 | 264,273 |
| Nash | 71 | 319,622 |
| New Hanover | 247 | 3,746,982 |
| Northampton | 67 | 218,753 |
| Onslow | 56 | 76,590 |
| Orange | 526 | 13,395,938 |
| Pamlico | 16 | 323,489 |
| Pasquotank | 106 | 1,383,097 |
| Pender | 99 | 204,497 |
| Perquimans | 20 | 52,004 |
| Person | 31 | 47,363 |
| Pitt | 286 | 4,785,385 |
| Polk | 15 | 20,228 |
| Randolph | 128 | 355,100 |
| Richmond | 197 | 336,617 |
| Robeson | 149 | 1,107,938 |
| Rockingham | 130 | 249,380 |
| Rowan | 193 | 887,873 |
| Rutherford | 56 | 150,006 |
| Sampson | 123 | 333,231 |
| Scotland | 50 | 74,724 |
| Stanly | 100 | 166,834 |
| Stokes | 103 | 119,704 |
| Surry | 85 | 120,351 |
| Swain | 8 | 20,115 |
| Transylvania | 62 | 94,863 |
| Tyrrell | 49 | 155,547 |
| Union | 37 | 103,569 |
| Vance | 122 | 102,136 |
| Wake | 1,619 | 19,286,136 |
| Warren | 72 | 287,800 |
| Washington | 131 | 224,545 |
| Watauga | 171 | 3,246,164 |
| Wayne | 265 | 1,456,164 |
| Wilkes | 75 | 189,333 |
| Wilson | 73 | 504,671 |
| Yadkin | 26 | 26,172 |
| Yancey | 57 | 76,642 |
| **Total** | **11,937** | **92,466,238** |

# Appendix B: Summary of State-Owned Land by Agency and County

**State-Owned Land By Agency**

| Agency | Number of Land Parcels Allocated | Total Acres Allocated | Percent of Statewide Acres |
|---|---|---|---|
| Department of Environment and Natural Resources | 3,282 | 716,893 | 81% |
| Department of Agriculture and Consumer Services | 1,339 | 81,180 | 9% |
| The University of North Carolina System | 2,099 | 31,396 | 4% |
| Department of Public Safety | 536 | 25,169 | 3% |
| Department of Health and Human Services | 283 | 9,432 | 1% |
| Department of Transportation | 860 | 6,726 | < 1% |
| Department of Cultural Resources | 325 | 5,355 | < 1% |
| Department of Administration | 339 | 3,248 | < 1% |
| Department of Public Instruction | 53 | 725 | < 1% |
| Office of the Attorney General | 5 | 115 | < 1% |
| Department of Commerce | 15 | 101 | < 1% |
| Office of Information Technology Services | 4 | 32 | < 1% |
| Office of the Governor | 2 | 21 | < 1% |
| Department of Justice | 1 | 17 | < 1% |
| Boards and Commissions | 3 | 8 | < 1% |
| **Total** | **9,146** | **880,418** | **-** |

Note: Many land holdings within the State Government Complex in downtown Raleigh are allocated to the Department of Administration, which allocates space to agencies both listed (Department of Public Instruction, Department of Commerce, etc.) and not listed (Office of the State Auditor, the General Assembly, etc.) in this table; thus, this table does not represent the totals of these entities' allocations within the Complex. The number of land parcels and total acres allocated do not include land acquisitions currently in progress. Department of Transportation land allocations do not include right-of-way properties.

*Source: Program Evaluation Division based on the Department of Administration's property database.*

## Appendix B: Summary of State-Owned Land by Agency and County (Continued)

**State-Owned Land by County**

| County | Number of Land Parcels | Total Acres | County | Number of Land Parcels | Total Acres | County | Number of Land Parcels | Total Acres |
|---|---|---|---|---|---|---|---|---|
| Alamance | 52 | 587 | Gaston | 94 | 3,146 | Pender | 99 | 116,325 |
| Alexander | 11 | 162 | Gates | 140 | 22,539 | Perquimans | 23 | 127 |
| Alleghany | 111 | 5,971 | Graham | 12 | 6 | Person | 17 | 2,247 |
| Anson | 21 | 386 | Granville | 149 | 13,388 | Pitt | 275 | 1,644 |
| Ashe | 129 | 9,249 | Greene | 40 | 261 | Polk | 68 | 12,405 |
| Avery | 39 | 6,955 | Guilford | 515 | 2,585 | Randolph | 58 | 2,501 |
| Beaufort | 93 | 4,615 | Halifax | 232 | 24,351 | Richmond | 50 | 33,686 |
| Bertie | 36 | 7,397 | Harnett | 54 | 4,909 | Robeson | 125 | 6,570 |
| Bladen | 51 | 50,460 | Haywood | 35 | 3,757 | Rockingham | 64 | 3,801 |
| Brunswick | 95 | 32,511 | Henderson | 63 | 4,207 | Rowan | 53 | 2,306 |
| Buncombe | 146 | 3,963 | Hertford | 76 | 9,513 | Rutherford | 60 | 21,290 |
| Burke | 203 | 31,824 | Hoke | 24 | 3,349 | Sampson | 36 | 3,242 |
| Cabarrus | 58 | 1,813 | Hyde | 107 | 32,842 | Scotland | 28 | 25,477 |
| Caldwell | 39 | 7,955 | Iredell | 62 | 2,175 | Stanly | 46 | 4,707 |
| Camden | 19 | 21,179 | Jackson | 163 | 2,964 | Stokes | 79 | 7,855 |
| Carteret | 155 | 13,311 | Johnston | 90 | 3,247 | Surry | 69 | 5,336 |
| Caswell | 42 | 16,736 | Jones | 23 | 44 | Swain | 6 | 4,473 |
| Catawba | 33 | 135 | Lee | 25 | 767 | Transylvania | 32 | 22,611 |
| Chatham | 58 | 2,874 | Lenoir | 109 | 2,809 | Tyrrell | 67 | 40,366 |
| Cherokee | 14 | 967 | Lincoln | 19 | 63 | Union | 48 | 271 |
| Chowan | 38 | 403 | Macon | 60 | 1,576 | Vance | 18 | 40 |
| Clay | 10 | 45 | Madison | 10 | 83 | Wake | 793 | 14,499 |
| Cleveland | 34 | 5,221 | Martin | 78 | 9,838 | Warren | 53 | 12,930 |
| Columbus | 70 | 14,186 | McDowell | 58 | 2,294 | Washington | 68 | 9,740 |
| Craven | 148 | 5,367 | Mecklenburg | 91 | 1,212 | Watauga | 211 | 4,920 |
| Cumberland | 237 | 12,672 | Mitchell | 25 | 1,313 | Wayne | 132 | 4,495 |
| Currituck | 54 | 17,679 | Montgomery | 65 | 1,086 | Wilkes | 141 | 19,933 |
| Dare | 255 | 6,374 | Moore | 84 | 6,628 | Wilson | 29 | 151 |
| Davidson | 23 | 263 | Nash | 36 | 1,272 | Yadkin | 26 | 598 |
| Davie | 18 | 254 | New Hanover | 199 | 4,503 | Yancey | 37 | 2,071 |
| Duplin | 31 | 2,903 | Northampton | 108 | 5,487 | **Total** | 9,146 | 880,418 |
| Durham | 270 | 8,743 | Onslow | 64 | 8,533 | | | |
| Edgecombe | 117 | 2,427 | Orange | 383 | 8,545 | | | |
| Forsyth | 188 | 441 | Pamlico | 37 | 5,546 | | | |
| Franklin | 45 | 2,318 | Pasquotank | 62 | 615 | | | |

# Appendix C: Summary of State-Leased Office and Warehouse Spaces by Agency and County

**Office and Warehouse Leases by Agency**

| Agency | Number of Leased Properties | Total Annual Rents | Total Square Feet |
|---|---|---|---|
| Department of Health and Human Services | 177 | $ 17,318,817 | 1,187,038 |
| Department of Public Safety | 117 | 8,566,888 | 866,577 |
| The University of North Carolina System | 117 | 12,311,853 | 716,354 |
| Department of Commerce | 87 | 7,166,612 | 557,590 |
| Department of Transportation | 97 | 6,364,110 | 497,857 |
| Department of Environment and Natural Resources | 23 | 3,061,167 | 245,445 |
| Department of Revenue | 18 | 2,257,380 | 168,774 |
| Department of Agriculture and Consumer Services | 24 | 434,910 | 93,420 |
| Boards and Commissions | 17 | $996,858 | 66,865 |
| NC Education Lottery | 6 | 839,371 | 66,180 |
| Department of Cultural Resources | 7 | 238,405 | 52,749 |
| Office of the State Controller | 2 | 1,050,340 | 50,233 |
| Department of Insurance | 4 | 861,047 | 49,223 |
| Office of the Governor | 4 | 739,615 | 39,496 |
| Office of the Attorney General | 5 | 493,788 | 37,271 |
| Department of Labor | 5 | 428,218 | 32,875 |
| Office of the Secretary of State | 2 | 530,333 | 30,444 |
| Office of the State Treasurer | 5 | 394,157 | 24,298 |
| Office of Administrative Hearings | 3 | 388,476 | 19,439 |
| Department of Administration | 21 | 233,954 | 18,089 |
| Department of Public Instruction | 11 | 147,583 | 10,957 |
| Office of Information Technology Services | 1 | 39,238 | 5,825 |
| Office of State Human Resources | 2 | 93,000 | 7,621 |
| Office of the State Auditor | 3 | 23,431 | 1,876 |
| **Total** | **758** | **$64,979,551** | **4,846,496 sq. ft.** |

Note: Data for leases is current as of February 17, 2015.

*Source: Program Evaluation Division based on the Department of Administration's property database.*

**Office and Warehouse Leases by County**

| County | Number of Leases | Total Square Feet |
|---|---|---|
| Alamance | 4 | 13,420 |
| Alexander | 2 | 24,515 |
| Alleghany | 1 | 812 |
| Anson | 1 | 12,000 |
| Ashe | 4 | 4,271 |
| Avery | 2 | 1,782 |
| Beaufort | 6 | 49,724 |
| Bladen | 5 | 29,904 |
| Brunswick | 9 | 22,552 |
| Buncombe | 32 | 153,346 |
| Burke | 9 | 50,936 |
| Cabarrus | 11 | 50,789 |
| Caldwell | 1 | 1,814 |
| Camden | 1 | 2,245 |
| Carteret | 8 | 33,200 |
| Catawba | 13 | 56,879 |
| Chatham | 3 | 6,425 |
| Cherokee | 4 | 11,454 |
| Chowan | 3 | 5,481 |
| Cleveland | 10 | 38,622 |
| Columbus | 6 | 12,657 |
| Craven | 11 | 38,011 |
| Cumberland | 20 | 123,052 |
| Dare | 7 | 13,089 |
| Davidson | 7 | 17,746 |
| Davie | 1 | 1,500 |
| Duplin | 5 | 10,777 |
| Durham | 17 | 97,025 |
| Edgecombe | 3 | 37,191 |
| Forsyth | 24 | 133,716 |
| Franklin | 5 | 10,677 |

| County | Number of Leases | Total Square Feet |
|---|---|---|
| Gaston | 6 | 21,942 |
| Granville | 3 | 10,671 |
| Guilford | 40 | 207,775 |
| Halifax | 6 | 65,468 |
| Harnett | 5 | 26,470 |
| Haywood | 4 | 11,218 |
| Henderson | 7 | 16,296 |
| Hoke | 4 | 5,431 |
| Hyde | 1 | 1,177 |
| Iredell | 6 | 43,111 |
| Jackson | 4 | 24,729 |
| Johnston | 11 | 28,874 |
| Lee | 4 | 25,832 |
| Lenoir | 6 | 11,356 |
| Lincoln | 4 | 11,212 |
| Macon | 3 | 5,700 |
| Madison | 5 | 3,849 |
| Martin | 5 | 20,816 |
| McDowell | 3 | 3,718 |
| Mecklenburg | 39 | 141,966 |
| Moore | 6 | 22,236 |
| Nash | 4 | 20,012 |
| New Hanover | 21 | 93,024 |
| Northampton | 1 | 1,058 |
| Onslow | 4 | 19,349 |
| Orange | 33 | 245,586 |
| Pasquotank | 11 | 26,686 |
| Pender | 1 | 3,973 |
| Person | 1 | 1,251 |
| Pitt | 45 | 264,573 |
| Randolph | 6 | 19,995 |

| County | Number of Leases | Total Square Feet |
|---|---|---|
| Richmond | 4 | 12,931 |
| Robeson | 7 | 27,460 |
| Rockingham | 3 | 12,354 |
| Rowan | 12 | 62,607 |
| Rutherford | 3 | 12,371 |
| Sampson | 5 | 14,260 |
| Scotland | 2 | 7,349 |
| Stanly | 4 | 17,155 |
| Stokes | 1 | 807 |
| Surry | 4 | 10,501 |
| Transylvania | 3 | 2,506 |
| Tyrrell | 2 | 497 |
| Union | 4 | 12,480 |
| Vance | 4 | 14,123 |
| Wake | 134 | 2,072,387 |
| Watauga | 6 | 19,652 |
| Wayne | 6 | 19,687 |
| Wilkes | 7 | 19,270 |
| Wilson | 6 | 21,447 |
| Yadkin | 2 | 3,057 |
| Yancey | 2 | 3,025 |
| Out of Country | 2 | 3,564 |
| Out of State | 1 | 6,040 |
| **Total** | **758** | **4,846,496** |

Notes: The State does not have office and warehouse leases in the following 17 counties: Bertie, Caswell, Clay, Currituck, Gates, Graham, Greene, Hertford, Jones, Mitchell, Montgomery, Pamlico, Perquimans, Polk, Swain, Warren, Washington. Data for leases is as of February 17, 2015.
*Source: Program Evaluation Division based on the Department of Administration's property database.*