

DRAFT Report

Joint Transportation Committee

Washington State Department of Transportation

Surplus Property Study

December 12, 2013

Readers Note: This report is a Draft. It is being developed concurrently with the Department of Transportation's preparation of a Facilities and Property Oversight Plan, which is due to the transportation committees of the Legislature and the Office of Financial Management by December 31, 20013. The Information in this report utilizes data being developed for the WSDOT Oversight Plan, and study staff has been working closely with WSDOT to incorporate the most current information. Adjustments of certain data in this report will continue until finalization of the WSDOT Oversight Plan.

Joint Transportation Committee

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JTC Study on WSDOT Surplus Property

Executive Summary

The Transportation Budget (ESSB 5024, Section 204(5)) directs the Joint Transportation Committee to study and review the use of surplus property proceeds to fund facility replacement projects, and the possibility of using the north central region of the Department of Transportation as a pilot project. This review builds on several legislatively mandated studies completed by WSDOT since 2008 to assess its property and facility ownership, its property management practices, future needs for agency facilities, and surplus properties that can be sold. WSDOT is currently updating its Facilities and Property Oversight Plan, which is to be submitted to the Office of Financial Management and the Transportation Committees of the Legislature by December 31, 2013.

WSDOT Property and Facilities

WSDOT owns a significant amount of real property, including real estate, highway rights-of-way, and other land holdings. Its Capital Facilities Program manages over 3.7 million square feet of building space and the facilities include about 1,400 buildings at 500 separate sites. Building functions and spaces include WSDOT's Olympia headquarters and the six WSDOT regional offices; traffic management and emergency operations centers; heavy vehicle repair shops; and state ferry facilities.

WSDOT reports a significant backlog of facility improvement and replacement needs estimated at over \$473 million. High priority needs total \$210 million over the next ten years, or \$30-\$40 million per biennium.

WSDOT's real property inventory includes real estate, highway rights-of-way, and other types of land holdings, with over 7,000 properties totaling over 530,000 acres. WSDOT has identified 28 property type which cover property owned for operating or future use, excess holdings from past projects, access rights, easements and lease-hold rights. Not all WSDOT property is included in the inventory. The inventory did not include operational rights of way, however in 2012 WSDOT began a project to inventory all operating right of way, acquired since 2002, which will escalate the number of properties in the property inventory.

In the 2008 WSDOT Surplus Property Report, the Department used screening criteria to identify 266 properties as potential surplus. Since 2008, WSDOT has sold from and added to the list of 266 potential surplus properties. The result is that the current list of potential surplus properties is approximately 500, some of which could be sold to reduce agency liability and generate funds for the motor vehicle account.

Observations

1. The number of properties WSDOT owns continues to grow as new projects are developed. Commensurate with the ownership of more properties, it is likely that the number of surplus properties continues to grow.
2. WSDOT should sell properties for which it has no future need.
3. For certain properties, the cost of the property sale exceeds the sales price (net loss).
4. It may be desirable to take a loss in selling a property to reduce on-going costs and reduce liability, thereby increasing funds in the motor vehicle account.
5. Certain surplus property legal requirements delay property sales; changes could improve the process, as noted in section 10 of this report.
6. The “605 Plan” has identified about 1,400 potentially surplus properties. WSDOT is working to dispose of about 500 of those properties. The estimated value, based on assessor’s records, of the 384 department initiated properties to sell is \$33.5 million.
7. WSDOT’s Facilities Capital Program is a very small portion of the agency’s \$1.5 billion operating budget. In the 2011-2013 biennium, the Capital Facilities Program was \$ 6 million, and in 2013-2015, it is \$21.5 million including a new Traffic Management Center for \$13.4 million.
8. WSDOT states in its 2013 Facilities and Property Oversight Plan that an investment level of \$30-\$40 million per biennium is needed to fund critical building needs identified as \$210 million.

Options for Improvements in WSDOT Surplus Property Processes

1. Shorten notice requirements to local governments
2. Reduce surplus property auction advertising requirements
 - a. Change requirement for advertising in legal and classified newspaper sections
 - b. Eliminate or change post-auction advertising requirement
3. Bundle the sale of low-value property
 - a. Evaluate market values for a specific area and utilize grouping properties
 - b. Combine several properties as a marketable ‘sale unit’ for auction or sale.
4. Incentivize the sale of surplus property
 - a. Incentivize on a statewide basis
 - b. Incentivize the sale of surplus property by WSDOT region
 - c. Incentivize the sale of surplus property in a WSDOT regional pilot project
5. Increase funding or shift resources for surplus property
6. Amend the requirement that property be sold at fair market value
7. Initiate other steps to expedite surplus property sale

JTC Study on WSDOT Surplus Property

1. Study Background

The Transportation Budget (ESSB 5024, Section 204(5)) directs the Joint Transportation Committee to study and review the use of surplus property proceeds to fund facility replacement projects, and the possibility of using the north central region of the Department of Transportation as a pilot project. In conducting the review, the JTC is to consult with the Department of Transportation and the Office of Financial Management regarding WSDOT's current process for prioritizing and funding facility improvement and replacement projects.

This review builds on several studies completed since 2008 by WSDOT in response to legislative directives and for internal management purposes. These studies have assessed WSDOT property and facility ownership, management of those properties, and future needs for those facilities, as well as identifying WSDOT surplus properties which could be sold. WSDOT is currently updating its Facilities and Property Oversight Plan, which is due by December 31, 2013.

Description of the Study Process

Staff from the legislative Transportation Committees, WSDOT and OFM have reviewed past studies on WSDOT facility management and discussed facility inventory efforts now underway.

Legislative and OFM staff held three meetings with WSDOT personnel: early September; October; and in December. Issues discussed at the first meeting included:

- Process for identifying "surplus property"
- Process by which that property goes from state inventory to being sold
- Overall facility needs, and
- Allocation of functions for real estate management among WSDOT's capital facilities office/Maintenance Operations Division, real estate services/Development Division, and regional real estate services offices.

At the second meeting, discussion issues were:

- Income from property sales and leases
- More detail on the surplus property disposal process
- Ideas to improve the disposal process, and
- Progress on the Facilities and Property Oversight Plan, mandated in the 2013 Transportation Budget and due by December 31, 2013. This JTC study is in part dependent on elements of that Plan.

The third meeting focused on the Oversight Plan elements and their relationship with the JTC Study. In addition, to the three above mentioned meetings, staff has had conversations with WSDOT personnel involved in property management and in Oversight Plan preparation.

2. Studies and Plans--WSDOT Property Inventory and Management

Since 2007, the Legislature has directed WSDOT to develop a series of reports related to facilities and property management. The objective of these successive reports regarding WSDOT properties is to ensure the agency has an accurate assessment of its property inventory; that it is efficiently utilizing its existing facilities; that it has a plan regarding future needs for properties; and that the agency is able to divest itself of properties that are surplus.

Each report has built on prior work, and those efforts continue. The data contained in subsequent reports shows the continuing changes caused in part by on-going property acquisitions to support the highway capital program, changing property management policies, and more efforts to surplus properties. WSDOT has also taken actions to improve facility management practices including reducing costs of leased office space.

2008—Section 304 Study The 2007 Transportation Budget (ESHB 1094, Sec 304) directed WSDOT to conduct a statewide inventory of all WSDOT-owned surplus property that is suitable for development for WSDOT facilities, or that should be sold.

The identified 5,602 parcels of property, and outlined an evaluation process to evaluate and filter parcels for retention or sale. The study identified risks with the existing data base, including potential inaccuracies regarding property size and type, ownership status, market conditions, and value.

The following filters were applied to identify those properties that should be retained: properties not entirely owned by WSDOT, properties that are part of transportation infrastructure, properties acquired for environmental mitigation, properties with a negative net value, and properties used for WSDOT operations.

The filtering process yielded 909 properties identified as surplus properties, totaling 5,835 acres. Of those, 643 parcels totaling 3,626 acres were identified as suitable for development for WSDOT, and 266 parcels totaling 2,209 acres that should be sold.

Due to the time, cost and effort required to appraise and process a parcel for surplus, WSDOT recommended targeting properties with the highest potential net value in its first surplus effort. Surplus costs for the top 20 properties were estimated at approximately \$1.0 million. WSDOT also recommended on-going efforts to verify property data, utilize a better tool to manage inventory, and to update this report biennially to communicate the department's proactive management of its inventory.

2011--Section 604 Plan The 2011 Transportation Budget (ESHB 1175, Section 604) directed WSDOT to prepare a plan to improve the oversight of real estate procurement and management practices across all WSDOT programs and regions, including the Washington State ferry system.

The plan identified 3.8 million square feet (SF) of owned and leased buildings and structures, serving the operational needs of 6,820 full-time employees. These buildings serve highway construction, maintenance and traffic operations and the Washington State Ferries (WSF). The facilities were grouped into two general categories: facilities that house employees including 1.3 SF of headquarters and region staff, and project engineering; and facilities essential to manage and operate systems, freeways and highways including maintenance and bridge operations, traffic management centers, and ferry terminals.

The resulting Facilities Oversight Plan contained five elements:

1. An inventory of currently owned and leased office space, operational facilities, and traffic management centers;
2. A list of facilities needed for tunnel and bridge operations in the next 10 years and funding sources assumed for those facilities;
3. A prioritized list of buildings planned to be built, renovated or remodeled over 10 years and funding to address that work;
4. A list of options for consolidating staff, equipment and operations to reduce costs; and
5. A process for evaluating needs for office and operational needs.

During the development of the plan, the Secretary of Transportation issued an Executive Order creating a Facilities and Lease Board in order to establish a corporate decision-making process related to agency building space, including future facility needs. WSDOT established the following guiding principles: maximize the use of state-owned facilities; to use leased space efficiently; to weigh short-term opportunities versus long-term viability and costs; and to provide adequate funds to maintain and operate buildings.

2013--Section 605 Plan The 2013 Transportation Budget (ESSB 5024, Sec 605) directed WSDOT to prepare an updated Facilities and Property Oversight Plan by December 31, 2013. The elements identified include updating and refining elements from the 2011 plan, plus requiring an inventory of land held by WSDOT. The six elements are:

1. An inventory of owned and leased office, operational facilities and traffic management centers;
2. A land inventory, as of July 31, 2013, including an indication of whether the land is being held for right-of-way, disposition, or future operational facilities;
3. A prioritized list of buildings planned to be built, renovated or remodeled over 10 years and funding to address that work;
4. A list of options for consolidating staff, equipment, and operations to reduce costs;
5. A department-wide process for evaluating needs for office and operational needs; and
6. A list of department-owned property that can be declared surplus property.

The 2013 budget had a number of other property management provisos, as shown below.

Other Facility and Property Management Provisos in the 2013 Transportation Budget

Section 204(5)	Joint Transportation Committee study of surplus property
Section 209(9)	Ferry operations funds to help fund plan for consolidating WSF activities into a statewide tolling customer service center.
Section 213(2)	Directs real estate services division to recover cost related to surplus property efforts
Section 213(3)	Transfer the Dryden Pit to the Department of Fish and Wildlife
Section 213(4)	Transfer the Apple Capital Loop to Douglas County and the City of East Wenatchee
Section 213(5)	Transfer/sell/lease the SR 20/Cook Road realignment and extension project portions to the City of Sedro-Woolley
Section 221(7)	Related to WSF Headquarters location, directs WSDOT to strive to consolidate office space in downtown Seattle.
Section 305(1)	Convey Marginal Way property at fair market value to abutting property owner for social service functions.
Section 305 (2)	\$13.4 million appropriated to construct a new traffic management center at Dayton Ave.
Section 306 (20)	WSDOT to itemize future requests for construction of building on a project list.
Section 309(8)	Related to WSF Headquarters location, directs WSDOT to strive to consolidate office space in downtown Seattle and reduce lease costs.

3. Overview of WSDOT Property Holdings

WSDOT's Capital Facilities Program manages over 3.7 million square feet of building space. The facilities that are used to manage and operate systems, freeways and highways, and other transportation operations, include about 1,400 buildings at 500 separate sites. Buildings contain functions such as WSDOT's Olympia headquarters and the six WSDOT regional offices; traffic management and emergency operations centers; heavy vehicle repair shops; and state ferry facilities.

WSDOT reports a significant backlog of facility improvement and replacement needs estimated at over \$473 million. High priority needs total \$210 million over the next ten years, or \$30-\$40 million per biennium. Facility needs are identified in Section 8 of this report, Figure E.

WSDOT's real property inventory includes highway rights-of-way, and other types of land holdings. There are over 7,000 property entries in WSDOT's real property inventory. These entries include 28 separate property types which cover property owned (operating and future use), excess holdings from past projects, access rights easements, and lease-hold rights. Not all WSDOT property is included in the inventory—and not all inventory entries reflect physical property that may be sold. This inventory did not include operational rights of way/traveled lanes, however, in 2012 WSDOT began a project to inventory all operating right-of-way acquired since 2002.

WSDOT Surplus Properties

In the 2008 WSDOT Surplus Property Report, the Department used screening criteria to identify 266 properties as potential surplus. Since 2008, WSDOT has sold from and added to the list of 266 potential surplus properties. There have been an additional 118 properties identified as potential surplus since the 2008 Surplus Property Report. As of August 2013, the status of the properties are as follows:

- Retain in perpetuity—51
- Hold for future identified actions—16
- Currently in the disposal process—35
- Sold—41 for a total of \$4,681,692
- To be reviewed--241

In addition to the "Department Initiated" potential surplus property, WSDOT receives requests from various groups that include: abutting property owners, other governmental entities, and the general public. These requests are categorized as "Public Initiated Requests", of which there are currently 155.

The result is that the current list of potential surplus properties total 500. The number of properties identified for disposition will likely continue to grow as property inventories grow.

4. WSDOT Property Management: Who Does What

Statewide, WSDOT's owned and leased building facilities and associated sites are operated and managed under the Capital Facilities Program/Maintenance Division. The real estate activities related to the purchase and disposal of WSDOT real property and property rights are managed by the Real Estate Services Office/Development Division. The Capital Facilities Program (Program D) is primarily responsible for managing the large inventory of WSDOT properties that support the operational needs of the department. This includes about 1,400 buildings and structures located at over 500 sites. These facilities' sites include office space, tunnel and bridge operations, maintenance facilities, Washington State ferry facilities, quarries, and rest areas.

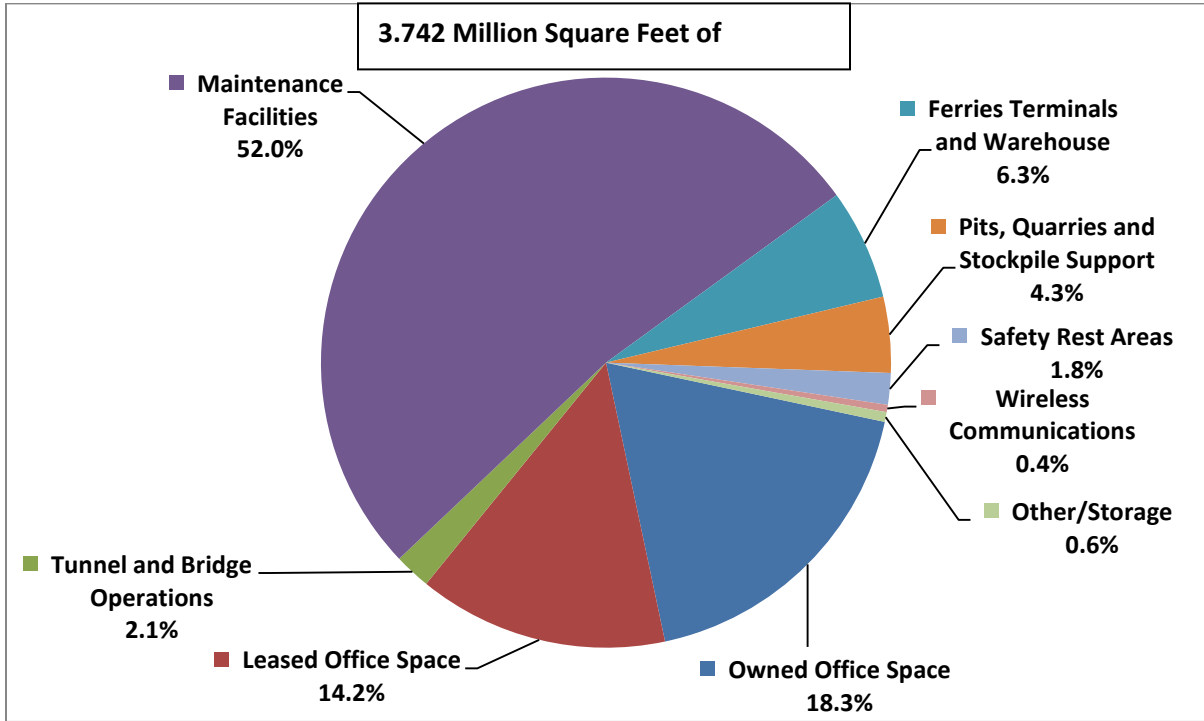
The daily maintenance and operation of space for specific facilities and for ferry terminals is funded from other programs. This includes bridge and tunnel operations, engineering offices tied to certain highway construction, and ferry operations.

The Real Estate Services (RES) Office/Development Division receives funding through Program H that is allocated by WSDOT's Program Delivery Management and Support Program. The primary function performed by RES is the acquisition of property for highway purposes. Additionally, RES houses the Property Management Program responsible for the disposal of surplus property. The RES office also provides technical support relating to real estate matters for Aviation, Ferries, and Rail.

The Facilities and Lease Board, established in 2011 by the Secretary of Transportation, represents a corporate decision-making process to oversee building space and communicate building space data for current and future needs. The Board consists of 10 senior managers representing all department divisions and programs, and meets at least quarterly. The Board is guided by principles to maximize the use of existing state facilities; use leased space efficiently; assess short-term opportunities versus long-term viability and costs; and identify adequate funds to preserve and operate occupied buildings.

Figure A depicts the use of properties owned or leased by WSDOT, and managed under the Capital Facilities Program. As Figure A shows, office and maintenance facilities represent the vast majority of WSDOT's facilities—over 80 percent. Other facilities include those for tunnel and bridge operations, traffic management centers, pits and quarries, and Washington State ferry terminals and warehouses. The number of and square feet of the facility inventory can vary. Some general engineering offices may be shorter-term facilities operated only during a project's development cycle. The manner in which particular facility properties are categorized can be confusing; rest areas can be characterized as a separate facility, or for other reporting, be part of a highway right-of-way, and therefore not included as a separate facility.

Figure A
Use of WSDOT Owned and Leased Facilities



Source: WSDOT

Figure B shows the diverse locations of WSDOT office and maintenance facilities, throughout the state. As shown in Figure A, Office Facilities constitute over 31 percent of total facility space, and maintenance facilities are over 50 percent of facility space.

Figure B
Regional Distribution of Office and Maintenance Facilities

Location	Office Facilities (Square Feet)			Maintenance Facilities	
	Owned	Leased	Total Office	Buildings and Structures	Square Feet
Headquarters	7,353	328,721	336,074	12	73,073
Northwest Region	249,007	18,998	268,005	205	424,750
North Central Region	29,775		29,775	72	270,636
Olympic Region	72,011	28,648	100,659	125	299,133
Southwest Region	157,448	15,569	173,017	91	223,513
South Central Region	95,583	6,983	102,566	107	333,614
Eastern Region	69,277	7,364	76,641	103	270,125
Washington State Ferries	6,087	124,703	130,790	4	54,297
Totals	686,541	530,986	1,217,527	719	1,949,141

Source: WSDOT

5. WSDOT Process for Disposal of Property

Disposal of WSDOT surplus property is administered through the Real Estate Services Office (RES), located within the Development Division.

The disposal process is described in detail in Appendix B. The process, which is multi-step and dependent on the property requested, can be lengthy and is initiated at the regional office level. The disposal can be “department initiated” or “public initiated”. Property ownership is verified and a property review package is routed to the appropriate staff in both the region and headquarters (HQ). Upon completion of the review, if approved, the package is forwarded to the HQ RES office. Upon receipt, HQ staff provide notifications to local jurisdictions, and facilitates the Federal Highways Administration review, if required. If not already completed by region staff, a determination of value and the appropriate plan revision are also requested and finalized. Upon completion of the 60-day notice period, HQ staff proceed with the sale.

HQ staff prepares for approval, a surplus property report detailing value and the proposed surplus method (RCW 47.12.063, 47.12.080, and 47.12.283). Once approved by the Property Management Program Manager, and upon receipt of the completed R/W Plan Revision, HQ staff mail offer letters based on the disposal method chosen (exchange, direct sale, auction, etc.). Upon acceptance by the purchaser, along with the required down payment, documents are reviewed and approved by the purchaser and Attorney General’s Office. The Secretary of Transportation executes the conveyance document, and HQ RES staff facilitate recording the conveyance document as well as finalizing the closing the file.

WSDOT is currently utilizing the multiple listing service (MLS) for 4 of its previously auctioned properties and will be using other internet resources such as Zillow, Redfin, and Pandora.

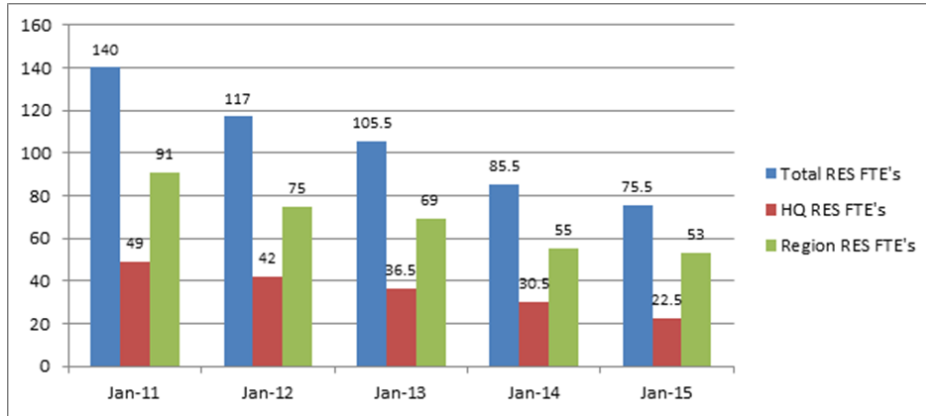
There are costs associated with the disposal of properties, which typically range from \$18,000 to \$54,000 per property depending on the complexity, size and value of the property. This includes costs for appraisal, RES responsibilities, department reviews, and marketing costs. The Department has implemented a strategy to better identify and track the cost related to the disposal of properties.

Real Estate Service Office staffing levels within WSDOT

During delivery of the Nickel Package and the Transportation Partnership Account projects, RES staff was primarily focused on property acquisition for those projects, as well as other WSDOT projects. Since the peak of that project development activity, RES staff has declined from 140 FTEs in January, 2011, to 117 in January, 2012, and 105 in January, 2013. The staff level is anticipated to decline to 85 in January 2014 and to 75 by January, 2015. Reductions occurred both at headquarters and at the regional offices. Figure C below shows the FTE decline trend for the period January 2011 until January 2015.

Statewide, about 15-20 RES staff are working on project and on-going property management. The remaining RES staff are involved in property appraisal, title activities, relocation assistance programs, compliance and regulatory activities, and management that is directly related to deliver of capital projects.

Figure C -- WSDOT Real Estate Services Staffing Levels



Source: WSDOT

Section 213(2) of the Transportation Budget directed WSDOT to “recover the cost of its efforts from sale proceeds and fund additional sales from those proceeds.” Secretary of Transportation Lynn Peterson has requested additional expenditure authority to fund the surplus property disposal efforts, saying that accounting standards do not permit use of property sale proceeds to be used for that purpose, rather that they must be deposited into the Motor Vehicle Account. In order to meet this budget proviso, WSDOT has requested additional expenditure and FTE appropriation in the 2014 supplemental transportation budget. The request is for 7 FTEs and \$ 1,750,000 per biennium.

6. Proceeds from Sales and Leases; Cash and Contracts

Over the past 5 fiscal years, FY 2009-FY 2013, WSDOT has sold 180 properties for over \$18 million. Because statutory authority provides for sales by cash or contract, some of WSDOT's real property sales are sold on contract, where there is a down payment and the property is paid off over time. In addition, during the past 5 fiscal years, WSDOT has received an average of about \$ 1.5 million a year for leased property and airspace leases.

Figure D
WSDOT Property Sales and Leases, 5-year historical data
((\$s in millions))

	Property sales, including contract payments	Property and airspace lease payments	Total
FY 2009	\$ 4.1	\$ 1.8	\$ 5.8
FY 2010	\$ 1.5	\$ 1.0	\$ 2.6
FY 2011	\$ 5.4	\$ 1.2	\$ 6.6
FY 2012	\$ 3.6	\$ 1.4	\$ 5.0
FY 2013	\$ 3.6	\$ 2.0	\$ 5.6
Totals	\$18.1	\$ 7.4	\$ 25.5

Source data: WSDOT
Contract payments average about \$900,000 per year.
Totals are rounded. Columns and rows may not sum due to rounding.

7. Use of Sales Revenues to Fund Facility Needs

As identified in the 2012 Facilities Oversight Plan, there are three ways to fund capital facilities:

- Cash - Existing Motor Vehicle Account sources or new gas tax or dedicated use of proceeds from the sale of surplus properties.
- Trade - Existing land and/or building assets traded for property or improvements such as an equivalent value exchange.
- Financing - Using Treasurer's Office instruments, such as Certificates of Participation which requires a revenue source to repay the investors their principle and a rate of return on their investment. Revenue does need to be identified for the debt service payments.

The Oversight Plan says that facility projects under \$5 million should be paid for with cash while larger projects should consider financing or property trade depending on project scale, complexity and opportunity.

Utilizing revenue from sales of surplus property for WSDOT facility funding could help address facility capital needs, but those revenues fall far short of identified capital needs. The 2008 Surplus Property Report identified 266 parcels that could be sold, with a 2008 assessed value of \$42 million. When selling a piece of property, WSDOT incurs sales costs including evaluations, appraisals, advertising, sales and closing costs. Some properties, particularly smaller ones, may cost more to sell than the dollars received. Sales costs for the 266 properties were estimated at \$4 million, bringing the net sales value to \$38 million. WSDOT recommended in 2008 to sell the 20 highest valued properties with an estimated net sales value of nearly \$30 million.

Presently when a property is sold, the revenues are deposited into the Motor Vehicle Account and are not reallocated back to WSDOT for reinvestment into facilities.

To successfully utilize a property trade, a project component must have the right combination of scope and schedule. In transacting with a private entity, the equal value exchange process requires a developer to construct the new WSDOT facility prior to the developer taking possession of the WSDOT trade property. If a WSDOT trade property is not currently being used by WSDOT, the funds can become available quickly by the funds being placed in escrow when the transaction is with another public entity. Due to the larger projects taking anywhere from three to six years, financing a larger project maybe more feasible. In addition, often the property value does not equal the costs of the facility improvements. This causes a funding gap that requires additional properties or cash.

Trading property can be a complicated process and developing a process for properties proceeds to be dedicated for facility improvements would be more efficient and feasible to fund portions of the large portions of the large facilities backlog.

8. WSDOT Facility Maintenance Needs

The Secretary of Transportation established the Facilities and Lease Board in 2011 to provide oversight, coordination and recommendations related to facilities including funding strategies, facility lease consolidations, and to strategically plan for facility replacement.

The majority of WSDOT facilities are aged and functionally obsolete. There is no identified funding for increased preservation needs or to fund the highest priority building replacements. WSDOT estimates the cost to replace and repair existing facilities at \$473 million. Of that amount, WSDOT identified \$210 million in high-priority projects over the next 10 years to ensure that buildings remain safe and functional to support the delivery and department programs and projects. These projects are shown in Figure E below.

The Facilities Oversight Plan includes recommendations to strategically address the unfunded need of \$30 to \$40 million per biennium.

Figure E

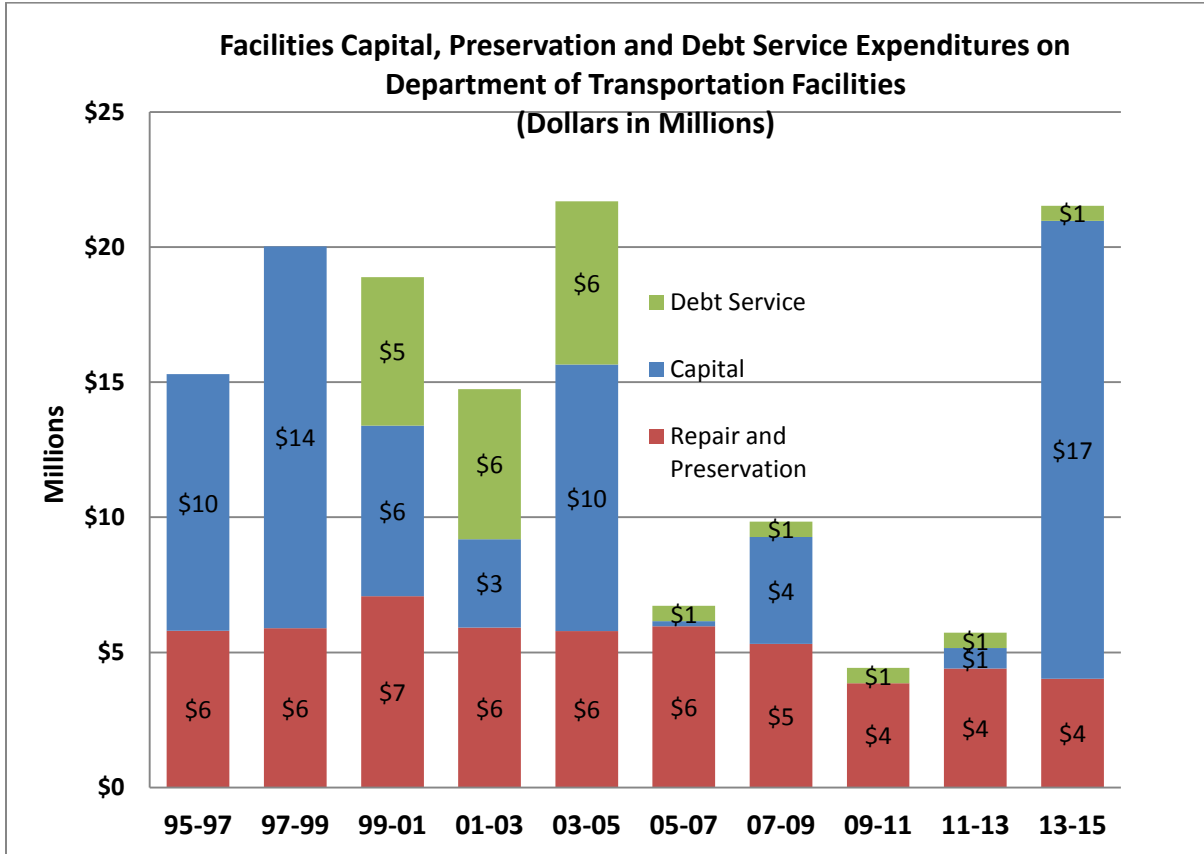
Region	High Priority Replacement Projects	Total Rating*	Estimated Costs
Olympic	Region Headquarters Facility	16	\$ 52,232,000
Northwest	NWR Maintenance Facility	16	\$ 14,400,000
Northwest	Northup Maintenance Facility	14	\$ **4,400,000
Northwest	Corson Avenue Improvements	12	30,000,000
North Central	Wenatchee Administrative Bldg.	12	\$ 9,650,000
Eastern	Spokane Reg. Signals Maint. Fac.	12	\$ 3,700,000
Southwest	Vancouver Light Industrial Facility	12	\$ 30,000,000
12 Other Facilities			\$ 58,504,000
Total 18 Facilities			\$ 202,886,000
Statewide	Facility Minor Improvement Projects		\$ 8,810,000
Total			\$ 211,696,000

* Rated 1-5, with 5 being least desirable. Four criteria: Deficiencies for Occupancy, Preservation, and Operations; and Beyond Useful Life

**\$1.8 million of this facility was funded in 2013-15 from SR 520 highway construction program.

Since the 2003-05 biennium, the facilities budget has been reduced due to funding constraints in the motor vehicle account. Figure F shows funds appropriated over the past 10 biennia for maintaining existing WSDOT facilities

Figure F



*The 2013-15 appropriation of \$ 21.5 million includes \$ 13.4 million for a new Traffic Management Center in the Northwest Region.

9. WSDOT North Central Region and its Facility Needs

During the 2013 regular legislative session there was particular interest in addressing some of the facility needs in the WSDOT's North Central Region (NCR). The House of Representatives proposed transportation budget contained a proviso with the intent of funding certain NCR property needs through the sale of surplus property. This concept was not adopted in the Senate and ultimately was not in the final transportation budget.

There are two high priority facility projects in NCR:

1. Consolidation of two existing maintenance facilities into one new location.

One proposal was to consolidate the Blewett Pass and Leavenworth maintenance facilities into one new facility at the junction of US 2 and SR 97 Peshastin Interchange. The Peshastin interchange location is undeveloped and already owned by WSDOT. The existing maintenance facilities at Blewett pass and Leavenworth were built in the 1950s and are undersized for current needs. Both facilities are high priority replacement projects in WSDOT's Facilities Oversight Plan, and WSDOT asserts that consolidation of the two locations would provide operational efficiencies. Construction of the new facility is estimated at \$6.5 million and sale of the existing sites at Blewett and Leavenworth is estimated to generate around \$3.5 million. A new facility would need to be operational before the existing sites could be sold.

2. Consolidation of two existing administrative facilities into one existing location.

The second proposed project involves consolidation of the Wenatchee Avenue administrative facilities into a new facility built on the existing WSDOT Euclid Ave site. Several modular buildings from the 1980s would also be replaced at the Euclid Ave site as part of this proposed consolidation. The Wenatchee Administrative building is a high priority replacement project in WSDOT's Facilities Oversight Plan. Construction of the new facility at Euclid Ave is estimated at \$10.5 million and sale of the existing site at Wenatchee Ave is estimated to generate around \$5 million. A new facility would need to be operational before the Wenatchee Ave site could be sold. Additional surplus properties within NCR have been identified that would bring the estimated surplus property proceeds up to \$10.5 million.

The House proviso proposed a mechanism that would allow for the accumulation of surplus property proceeds that would be held in an account by OFM until sufficient funds were available to begin either of the facility consolidation proposals in NCR. Surplus proceeds from any sale of surplus property statewide would have been directed towards funding of the NCR projects. Relying on just the proceeds from the sale of surplus properties in NCR does not seem feasible as the potential surplus properties will in use until the new facilities are built.

The House proviso in ESHB 1864 read as follows:

(3) \$17,000,000 of the motor vehicle account--state appropriation is provided solely for costs associated with the construction and consolidation of facilities identified as high priority replacement projects in the facilities oversight plan prepared for the governor and the joint transportation committee of the legislature and dated September 1, 2012. \$16,500,000 of this appropriation must be held in unallotted status until the office of financial management deems that revenue applicable to the sale of identified surplus property is sufficient to cover project expenditures.

The Wenatchee administrative building and the Leavenworth and Blewett section maintenance facility projects are to be included in a pilot demonstration project funded by this appropriation. Revenue offsetting this appropriation is anticipated to come from the sale of properties owned by the department but no longer needed for transportation purposes. A portion of the appropriation in this section may be used to prepare, market, and sell the properties providing the offsetting revenue for this appropriation. Proceeds from the sale of these properties must be deposited in the motor vehicle account.

The department shall report to the office of financial management and the transportation committees of the legislature the results of the pilot demonstration project, as well as suggestions to improve the process as a part of the department's annual facilities oversight report update.

WSDOT, The City of Wenatchee and Legislators continue to discuss other alternatives which could result in the consolidation of the maintenance and administrative facilities in NCR.

10. Study Observations

Numerous proposals have been put forward regarding the possible use of the proceeds from the sales of WSDOT property as a means to fund facility replacement projects. This alternative raises for the Legislature numerous policy considerations associated with the disposal of surplus property, use of funds derived from property sales, and the funding of WSDOT facilities.

Observations

1. WSDOT should sell properties for which it has no future need.
2. The number of properties WSDOT owns continues to grow as new projects are developed. Commensurate with the ownership of more properties, it is likely that the number of surplus properties continues to grow.
3. For certain properties, the cost of the property sale exceeds the sales price (net loss).
4. It may be desirable to take a “loss” in selling a property to reduce on-going costs and reduce liability, thereby increasing funds in the motor vehicle account.
5. Certain surplus property legal requirements delay property sales; changes could improve the process, as noted in the next section of this report.
6. The “605 Plan” has identified about 1,400 potentially surplus properties. WSDOT is working to dispose of about 500 of those properties. The estimated value, based on the assessor’s records, of the 384 department initiated properties to sell is \$33.5 million.
7. WSDOT’s Facilities Capital Program is a very small portion of the agency’s \$1.5 billion operating budget. In the 2011-2013 biennium, the Capital Facilities Program was \$6 million, and in 2013-2015, it is \$21.5 million, including a new Traffic Management Center for \$13.4 million.
8. WSDOT states in its 2013 Facilities and Property Oversight Plan that an investment level of \$30-\$40 million per biennium is needed to fund critical building needs, identified at \$210 million.

11. Options for Improvements to WSDOT Surplus Property Processes

These options are identified for consideration by the Legislature. They are not intended as recommendations, but rather are alternative approaches for legislative consideration. Certain recommendations can stand on their own, while others are intended to complement one another.

Option 1. Shorten notice requirements to local governments

Issue: RCW 47.12.055 requires WSDOT to provide a 60-day notice of their intent to sell surplus properties to the city/town and county in which the surplus properties are located. WSDOT currently receives responses from the local jurisdictions about 5 percent of the time.

Action: Revise current law to make the notice requirement 30 or 45 days (WSDOT recommendation)

Pro: Reducing the notification period will help expedite the sale of surplus properties.

Con: Local jurisdictions may prefer the longer time to reply.

Option 2. Reduce surplus property auction advertising requirements

Issue A: RCW 47.12.283(2) requires WSDOT to advertise surplus property auctions in both the legal and classified sections of a legal newspaper in the area where the property is located. The notices run for at least two weeks prior to the auction, and must run on the same day of the week for two weeks. The costs of these notices have increased greatly over the last decade. WSDOT's recommendation is to revise this statute to require the notice to run in either the legal or the classified section of the newspaper, rather than both.

Action A: Reduce the auction advertising requirement allowing the notice to run in either the legal or classified section of the newspaper, rather than both.

Pro: This change has the potential to save WSDOT costs of auction advertising by up to \$5,000 per auction.

Con: Some potential bidders may miss notice of an auction with reduced advertising.

Issue B: RCW 47.12.283(5) requires WSDOT to do additional post-auction advertising for properties sold with an appraised value over \$10,000. This gives the public 10 days following notice publication to submit a counter offer. WSDOT has never received a counter offer.

Action B: Eliminate the post-auction advertising requirement for properties with an appraised value over \$10,000. (Alternatively, raise the \$10,000 threshold for additional advertising to a higher level, such as a \$50,000 or \$500,000 threshold.)

Pro: This re-advertising requirement currently costs WSDOT approximately \$200 to \$800 per property, plus staff time.

Con: A sold-property might have received a higher counter offer with post-sale advertising. This risk could be reduced with a higher appraised value threshold.

Option 3. Bundle the sale of low-value properties

Issue A: In some cases the value of a property is less than the cost to dispose of the property. Offering a bundle of small properties may provide a better cost to revenue ratio for WSDOT, and may entice additional buyers.

Action A: No legislative action is required.

Pro: There is the potential to surplus multiple small properties and reduce the state's risk exposure for less cost.

Con: Potential for properties not to sell due to bundling.

Issue B: Some property's value exceeds the valuation, advertising, and administrative costs to sell the property. Bundling the properties for the "evaluation and selling process" may reduce the cost of sale per property, and improve the net proceeds from the sale.

Action B: No legislative action required.

Pro: May reduce cost per property sale in terms of valuation, advertising, and administrative expenses.

Con: May be useful only in certain areas (within a small geographic area).

Option 4. Incentivize the sale of surplus property

Issue: There is currently no incentive for WSDOT to surplus properties. Revenue from surplus sales goes back into the motor vehicle account, which may or may not be used to support additional WSDOT expenditures.

Action: Create a separate account for the proceeds of surplus property sales (and possibly lease revenue) and direct these funds to be used for a prioritized list of facility projects. This list could be adopted by the Legislature, or created and maintained at WSDOT's discretion.

Pro: Provides a clear nexus between sale of surplus property and reinvestment in WSDOT facilities. Provides an on-going funding source for facility investments, though it will not be sufficient to meet all facility investment needs.

Con: Proceeds from surplus property sales are reserved for facility investments, rather than being available for legislative appropriation for any motor vehicle account eligible expenditure which may be a higher priority.

Option 4b. Incentivize the sale of surplus property by WSDOT region

Issue: There is currently no incentive for WSDOT to surplus properties. Revenue from a surplus sale goes back into the motor vehicle account, which may or may not be used to support additional WSDOT expenditures.

Action: Create a separate account for the proceeds of surplus property (and possibly lease revenue) within each region and direct these funds to be used for expenditures on a prioritized list of facility projects within that region. This list could be adopted by the Legislature, or created and maintained at WSDOT's discretion.

Pro: Provides a clear nexus between sale of surplus property and reinvestment in WSDOT facilities. Retaining the proceeds within a WSDOT region further incentivizes the region to surplus properties. While it would provide an on-going revenue source, it would likely not be sufficient to pay for all facility investment needs.

Con: Proceeds from surplus property sales are reserved for facility investments, rather than being available for legislative appropriation for any motor vehicle account eligible expenditure. If these funds are retained within the region, they may not be used for the highest priority facility investments in the state. Also, this could result in properties being retained within districts to fund future facilities.

Option 4c. Incentivize the sale of surplus property in a WSDOT regional pilot project

Issue: There is currently no incentive for WSDOT to surplus properties. Revenue from a surplus sale goes back into the motor vehicle account, which may or may not be used to support additional WSDOT expenditures. In the 2013-15 budget development process, there was legislative interest in using the North Central Region as a pilot. This region has two buildings in the top 20 facilities needs list, as categorized by WSDOT.

Action: Create a separate account for the proceeds of surplus property (and possibly lease revenue) and direct these funds to be used for expenditures on a priority list of facility projects. Require revenue from a WSDOT region to be reinvested in that region's facility needs. On a pilot basis, require that resources be directed first to complete priority facility needs in the North Central Region. Expansion of this process statewide could be contingent on a successful pilot program.

Pro: Provides a clear nexus between sale of surplus property and reinvestment in WSDOT facilities. Retaining proceeds within a WSDOT region further incentivizes

the region to surplus properties. The North Central region has already identified surplus properties with an estimated value sufficient to fund of two replacement maintenance facilities and a regional administration facility. The process could be tested on a pilot basis before being applied statewide.

Con: Proceeds from surplus property sales are reserved for facility investments, rather than being available for legislative appropriation to any motor vehicle account eligible expenditure. The greatest facility needs may not coincide with regions where the surplus property revenue is generated. The North Central Region does not have the highest ranked facility needs, although they do have significant needs.

Option 5. Increase funding or shift resources for surplus WSDOT property.

Issue: Although there are nearly 90 FTES currently working on real estate services activities in both HQ and the regions, only 15-20 FTEs statewide work on surplus WSDOT properties.

Action: Fund all or a portion of the WSDOT request for additional FTES (5.8 FTES at \$1.45M in 2013-15) and/or shift other real estate FTEs to surplus property. Funding could come from a dedicated surplus property account, if that part of Option 4 is implemented.

Pro: More property held by WSDOT would be prepared for sale and sold as surplus. Additional revenue would be received by the state.

Con: There is a cost to increasing the processing and sale of surplus property. Shifting resources may impact WSDOT's ability to complete other real estate functions, such as the purchase of property for capital projects.

Option 6. Amend the requirement that property be sold at fair market value.

Issue: RCW 47.12.063 requires that property be sold at fair market value. In certain circumstances, there are no willing buyers for property priced at fair market value. Yet, the cost of sale of property may exceed the value of the property and the continued WSDOT ownership of the property may involve on-going expenses and liabilities associated with property ownership.

Action: Amend the requirement to sell at fair market value, so that the cost of sale and ongoing cost of ownership expenses can be taken into account when offering the property for sale.

Pro: May permit divestiture of property that is of little or no value to the state and may represent a liability for continue ownership—thus saving public funds.

Con: Could result in public perception of the public interest being compromised. Could result in some abuses in certain property sales.

Option 7. Initiate other steps to expedite surplus property sale.

Issue: Once a property has gone through the thorough WSDOT process to identify it as surplus, it then has a lengthy sales process.

Action: Establish policies that expedite small value property sales, yet provide checks to ensure the protection of the public interest.

- Easier calculation of property valued below some threshold (\$20,000)
- Other steps to reduce costs

Two additional pages to be added:

Appendix A: Acquisition to Property Management Process Summary

Appendix B: Graph of WSDOT disposal process