
ORANGE COUNTY REAL ESTATE: DO THEY KNOW WHAT THEY HAVE?



GRAND JURY 2014-2015

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EXECUTIVE SUMMARY

To what extent does Orange County effectively manage both buildings and land? The Board of Supervisors attempted to answer this question in December of 2012; they voted to enhance the real estate management capabilities by creating a County Real Estate Officer and requested a study by the County Executive Officer of the status of County real estate. The requested study was never completed.

The Grand Jury investigation revealed that the County has several partially complete and/or partially updated databases of its real estate holdings. This collection of real estate databases is not comprehensive or compatible in content, or consistent in data and accuracy. The Grand Jury concluded that there is not a complete, accurate County real estate database. The Grand Jury believes that such a database is necessary for the County to make optimal and efficient real estate management decisions. With the potential for future real estate decisions being based on unavailable or inaccurate data that could lead to less-than-desirable stewardship of County's tax dollars, the Grand Jury believes that comprehensive and compatible real estate data information is necessary. The Grand Jury has discovered no evidence of any urgency by the County in implementing such a real estate database.

BACKGROUND

The Grand Jury found that there are approximately 2,300 real estate properties that Orange County (the County) has the duty to manage in a fiscally responsible manner. This total includes real estate holdings that are owned by the County, as specified by information provided by the offices of the Orange County Assessor and the Orange County Auditor-Controller. It also includes 98 properties that are leased by the County, per information provided by the Orange County Public Works Department (LA Consulting, 2012). While the Grand Jury cannot determine the current market value of the County's property, a report from Alliant Insurance, which insures the County's buildings, lists the valuation of the County's insured buildings at \$1.7 billion (Alliant, n.d., p. 128). The Grand Jury was unable to find a source of valuation for the County's unimproved or undeveloped land.

The Orange County Board of Supervisors (BOS) has recognized the need to maximize the use and improve the use, management, and oversight of Orange County real estate. At the December 18, 2012 BOS meeting, the supervisors directed staff to commence recruitment for an executive real estate position. A Chief Real Estate Officer (CREO) who reports to the County Executive Officer (CEO) was hired in June 2013 to direct the Corporate Real Estate Section (Orange County Executive, 2014). At that same BOS meeting, the BOS directed the CEO to examine the status and functionality of County real estate policies, practices, controls, and to deliver a completed study to the BOS, with options and recommendations, within 120 days (Orange County BOS, 2012, p. 8).

The Grand Jury was interested in reading the information in this real estate report; however, there was no evidence that the report was ever prepared or delivered to the BOS. Upon further inquiry, several County employees mentioned that this report was never written.

During Interviews with staff from the offices of the County CEO, CREO, and Public Works, the Grand Jury learned that management of County real estate was previously the responsibility of Public Works. The newly created CREO position took on responsibility for overall management of County real estate. Under the CREO, the Corporate Real Estate Department is currently staffed with experienced individuals from Public Works and from the real estate profession (Orange County Executive, 2014).

REASON FOR THE STUDY

The Grand Jury found several news articles claiming the federal government had apparent deficiencies in managing its real estate. One article reported that there were nearly 80,000 federally owned properties that are either completely unused or sorely underutilized which could be costing taxpayers upwards of \$1.7 billion in annual upkeep costs (Ingraham, 2014). Another article estimated that the federal government had 14,000 “excess” buildings that were no longer needed (Flock, 2012).

The Grand Jury was concerned about the assertions in these articles and wondered if the County was as wasteful as the federal government with regard to real estate management. The Grand Jury was interested in determining to what extent management of Orange County’s real estate may have deficiencies that could be wasting County taxpayer dollars. The Grand Jury believed that an investigation into this area would be informative to both County officials and taxpayers.

METHODOLOGY

The Grand Jury conducted an Internet search and interviewed County employees from the County Executive Office, County executive staff, department heads, and staff members of elected officials to obtain information on the state of County owned and leased real estate. The Grand Jury also interviewed members of departments that would have a need for real estate information. With consent of the interviewees, interviews were recorded to ensure accuracy.

The Grand Jury conducted a review of Board of Supervisors’ meeting minutes for real estate information, followed up on information and reports suggested in interviews, and requested relevant information from County departments. In addition, the Grand Jury reviewed the process for making a lease request and for presenting a lease agreement to the BOS for approval.

INVESTIGATION AND ANALYSIS

Comprehensive Real Estate Database

The Grand Jury began its investigation by conducting an Internet search of County real estate data. Despite the limited availability of meaningful public data regarding County real estate holdings, the Grand Jury expected that the County would have access to accurate and timely information on their real estate portfolio in order to make good management decisions. To the Grand Jury’s dismay, this was not the case.

The Grand Jury learned that a comprehensive, countywide accessible, accurate real estate database does not exist. Some County departments have real estate data,

but only on their portions of the County's property. Useful data, such as available square footage and the usage by square footage, were in many cases not available.

Comprehensive County real estate information was difficult to find. Interviews with staff from the offices of the CEO, CREO, Public Works, and County Assessor indicate that there is not a usable, consolidated real estate asset list or database available for use by County officials, departments, supervisors, and employees. County officials have indicated that the County previously used a real estate database, County Real Estate Database (also known as CRED), which was considered outdated, not fully maintained, and difficult to operate. The Grand Jury found that several departments in the County maintained their own databases; however, each database had limited data that was primarily related to the properties managed by the individual departments.

The Grand Jury found that the CREO looked into developing a real estate database for the County in the fall of 2014. However, implementation of that database was not initiated and was expected to take at least a year to complete. It appears that the development of this database was not a priority.

Existing Databases

County Assessor's Database

The County Assessor's database focuses on data pertaining to property tax assessment values. Since County-owned properties have a zero reported value, the market values are not identified, and the properties are not reviewed on a regular basis. The information available is limited to the property's location on a parcel map.

Auditor-Controller Database

The Auditor-Controller maintains a list of properties that contains buildings for depreciation purposes, which includes square footage, transactional values (original cost paid by the County for the property), and depreciated values. The Auditor-Controller property list does not include vacant land because the Auditor-Controller is only interested in depreciation expense, and vacant land is not depreciated. The Auditor-Controller reviews BOS meeting minutes to extract real estate data that it needs to update its database. However, if a County real estate transaction is not reported in the BOS meeting minutes, then the transaction's information might not be included in the Auditor-Controller's real estate database.

Sheriff-Coroner Database and Other Databases

A representative from the Sheriff-Coroner's office indicated that the Sheriff's Department manages real estate information on an Excel[®] spreadsheet. Risk Management has a list of buildings and valuations provided by an insurance carrier for underwriting reasons. As such, vacant land is not included in the Risk Management real estate list because it is not insured for loss (Alliant, n.d.). Finally, Public Works maintains a property database, but only with updated information that Public Works needs for maintenance purposes.

No Single Database

Based on the Grand Jury's review of selected County real estate databases and interviews with County employees, it is evident that the County maintains several real estate databases, but no single database exists with all of the necessary information for the County to make informed real estate decisions. What is worse, the data element fields within all of the various databases are not standardized. In addition, several data elements in some databases had not been updated and were inaccurate.

County Real Estate Data Inaccuracies and Deficiencies

The accuracy of existing Orange County real estate databases was also called into question. Based on an interview with a high-ranking County official, the Grand Jury determined that though this official seemed to believe that the County had adequate information as to what buildings the County owned and their occupancy, if the County was looking for additional available office square footage in sizes around 5,000 square feet, the County, in fact, would probably not have accurate information to successfully determine whether such space was available.

Based on discussions with other County officials, the Grand Jury determined that each County department was responsible for the updates and the accuracy of their individual databases. However, departments do not have access to a Countywide database. Many departments felt that their databases had questionable accuracy due to incomplete or missing information. Most agreed that having a comprehensive County real estate database would prove to be very helpful in making real estate decisions.

Discussions with key County executives revealed that each department had various levels of data in their databases. They noted that a more comprehensive and accessible real estate database would be very helpful. Many County executives agreed that a countywide database should be maintained and controlled by the CREO, with global access provided to all County departments.

Why a Comprehensive Database is Needed

Perceived Need.

Representatives from County agencies and departments have stated to the Grand Jury that there is a compelling need for a County-wide searchable database for its real estate. They have mentioned to the Grand Jury that such a database would be of value in carrying out County business tasks, such as:

- Determining maintenance responsibility for leased buildings;
- Searching for a suitable land site for a County department (e.g., a new animal shelter);
- Searching for additional office square footage for their department from properties owned or leased by the County;
- Deciding which properties are potential income producing property for the County; and

- To more accurately determine the amount of insurance coverage for buildings.

Improved Management.

Several officials mentioned situations in which County departments that were leasing office space from non-County lessors contacted Public Works to perform maintenance on the property. Because personnel from Public Works could not verify whether they were responsible for maintenance on the property, Public Works went ahead and performed the maintenance. This represents a waste of County resources and funds since the maintenance in this situation is the responsibility of the non-County lessor.

Many of the County officials the Grand Jury interviewed stated that a database would be useful for a variety of reasons. These reasons included the following:

- Having an accurate and current status on all County properties
- Making judicious use of property in an efficient and effective manner
- Making leasing decisions
- Determining properties that are potentially income producing
- Selling off surplus properties

Utilization. The Grand Jury discovered that there were County buildings that were not being utilized; yet, the County has had to spend money on maintaining these unused buildings. There may be some legitimate reasons for temporarily maintaining unutilized buildings; but without sufficient data concerning the County's property, the County cannot arrive at intelligent decisions regarding use and disposition of these holdings.

Cost reduction. During its investigation, the Grand Jury intended to quantify the opportunity cost from past County real estate decisions based on its current database information. The problem is that it is impossible to surmise how the "better information" would have changed decisions, or what would have been the financial impact. However, the Grand Jury believes that it is a reasonable intuitive argument that better information or access to data would yield better (i.e., more cost effective) decisions. The cost of implementing an updated real estate database should be considered in deciding whether its implementation is justified. Based on the opinions of some of the interviewees in this investigation, it was believed that the cost to implement the upgraded database was not prohibitive based on its perceived payback period.

Leasing. The Grand Jury learned that the full extent of available office square footage in the County was unknown. This lack of information may cause the County to approve leasing additional square footage of office space from a new source, when existing County office space is already available.

Conclusions

Priority.

Creating this database does not seem to be a priority. Given the failure to deliver the real estate report requested by the BOS in 2012, and the recent change in the members of the BOS; the Grand Jury is concerned that this database project may also be placed on the “back burner” and never completed.

Development of Database.

The Grand Jury finds that a sense of urgency needs to be conveyed by the BOS regarding the implementation of systems that provide improved real estate information for the County. A relatively small investment in the suggested real estate data system would likely have an immediate payback by reducing any waste of County dollars on ill-informed real estate decisions. In addition, a comprehensive data system would save time searching for information.

Management and Control.

A database is only as good as the information it contains. An accurate database is essential to informed decision making. The Grand Jury concluded that accountability for database accuracy must be assigned to a position with the responsibility and authority for accuracy. An annual inventory and data review through each department is a good practice. Many managers that the Grand Jury interviewed concurred with the need for establishing and maintaining the accuracy of databases.

The Grand Jury concluded that developing a timeline that includes target completion dates for each database-development stage to acquire and to populate a real estate database is necessary to establish control measures, including an estimated completion date.

FINDINGS

In accordance with California Penal Code sections 933 and 933.05, the 2014-2015 Grand Jury requires (or, as noted, requests) responses from each agency affected by the findings presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

Based on its investigation of Real Estate in Orange County, the 2014-2015 Orange County Grand Jury has arrived at four principal findings, as follows:

- F.1.** While the Board of Supervisors has officially recognized the need to have comprehensive management of County real estate, there does not appear to exist any sense of priority or urgency in the County relative to the development of a complete, up-to-date database.
- F.2.** Management of County real estate assets is decentralized, and individual departments track property under their purview.

- F.3.** The County does not have a single, comprehensive, accurate real estate database with information that can be used by the County departments.
- F.4.** Having a comprehensive County real estate database would be beneficial in managing County real estate assets and support prudent decision making.

RECOMMENDATIONS

In accordance with California Penal Code sections 933 and 933.05, the 2014-2015 Grand Jury requires (or, as noted, requests) responses from each agency affected by the recommendations presented in this section. The responses are to be submitted to the Presiding Judge of the Superior Court.

Based on its investigation of Real Estate in Orange County, the 2014-2015 Orange County Grand Jury makes the following three recommendations:

- R.1.** The County should create a regularly updated database that includes information that will improve the stewardship of County real estate. This database should include a comprehensive, uniform list of data elements so that all County departments can benefit from its use. The Grand Jury recommends the following data items be included at a minimum:

1. Building address
2. Assessor's Parcel Number
3. Description of property
4. Date of acquisition
5. Building Number
6. Relationship to other properties, if appropriate
7. Property size:
 - a. Building square footage
 - b. Leased space square footage
 - c. Land square footage or acres
8. Condition of land or building (e.g., not suitable for building, not suitable for building occupancy, refurbishing, open land, reserved open space)
9. Occupancy and use of buildings by square footage
10. Non-occupied space by square footage
11. Ownership details, such as:
 - a. County of Orange owned
 - b. Owned under Orange County Flood Control District (OCFCD)
 - c. Leased to County by private owner
 - d. Leased to OCFCD by private owner
 - e. Leased to private party by the County of Orange
 - f. Leased to private party by the OCFCD
12. Contract terms for County income-generating property
13. Maintenance information, including responsibility
14. Lease terms, such as:
 - a. Start and end dates
 - b. Monthly lease payments

- c. Cost per square foot
- d. Restrictions
- e. Options
- 15. Is the property vacant land or open space?
- 16. Is the property not available for use? If so, why?
- 17. Transaction Value
- 18. Depreciated Value
- 19. Information on upgrades, remodeling
- 20. Insurance coverage
- 21. Environmental risks such as asbestos, underground storage tanks or soil contamination
- 22. Deed Restrictions

(F.2., F.3., F.4.)

- R.2.** The County should establish a person or position to be accountable for the ongoing accuracy of the real estate database. The County should also consider the feasibility of performing an annual inventory of the County's real estate to help to ensure the information in the database is accurate. (F.3., F.4.)
- R.3.** The County should establish a timeline with realistic deadlines for its project to create and populate a comprehensive real estate database. This timeline should include target completion dates for major stages of the project. (F.1.)

REQUIRED RESPONSES

The California Penal Code section 933 requires the governing body of any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the governing body. Such comment shall be made no later than 90 days after the Grand Jury publishes its report (filed with the Clerk of the Court). Additionally, in the case of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such elected official shall comment on the findings and recommendations pertaining to matters under that elected official's control within 60 days to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code section 933.05 (a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

- (a) As to each Grand Jury finding, the responding person or entity shall indicate one of the following:
 - (1) The respondent agrees with the finding.
 - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

- (b) As to each Grand Jury recommendation, the responding person or entity shall report one of the following actions:
- (1) The recommendation has been implemented, with a summary regarding the implemented action.
 - (2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
 - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the Grand Jury report.
 - (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.
- (c) If a finding or recommendation of the Grand Jury addresses budgetary or personnel matters of a County agency or department headed by an elected officer, both the agency or department head and the Board of Supervisors shall respond if requested by the Grand Jury, but the response of the Board of Supervisors shall address only those budgetary /or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with Penal Code section 933.05 are required from:

Responses Required:

Board of Supervisors (BOS): F.1., F.2., F.3., F.4., R.1., R.2., R.3.

Responses Requested:

County Executive Officer (CEO): F.1., F.2., F.3., F.4., R.1., R.2., R.3.

Chief Real Estate Officer (CREO): F.1., F.2., F.3., F.4., R.1., R.2., R.3.

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