



Surplus Real Property In Kentucky

Program Review And Investigations Committee

May 9, 2019



Division Of Real Properties And Archibus

- The Division of Real Properties (DRP) in the Finance and Administration Cabinet (FAC) manages the inventory of state-owned real properties
 - Real property is tracked by an asset management application called Archibus



Inventory Of State-Owned Real Property

- 7,929 real property assets (June 2017)
- Archibus lists 33 vacant properties, most belonging to the Department of Parks



Classification Of Properties

- Storage (21.1%)
- Residence (10.6%)—mostly for university students
- Education (10.2%)
- Recreation (8%)
- Office (5.2%)
- Park lodging (4.8%)
- Miscellaneous (40.1%)



Problematic Information In Archibus

- 601 properties did not specify a building use code or were designated unknown in Archibus
- DRP does not require agencies to enter a use code for reporting



Recommendation 1

The Finance and Administration Cabinet should ensure that agencies provide building use code descriptions in all real property reporting forms.



Problematic Information In Archibus

- Of 34 properties that resulted in a sale since 1998, nine were missing sale or appraisal values or appeared to qualify for transfers instead of sale



Recommendation 2

The Finance and Administration Cabinet should ensure that all property disposition files are complete and that Archibus is up-to-date and reflects paper files associated with a disposition.



Real Property Disposition

- FAC is empowered, with secretary approval, to allow transfers, exchanges, and sales of real property
- DRP handles disposition of surplus property
 - No centralized process to identify surplus property
 - Agencies report surplus property to DRP



Recommendation 3

The Division of Real Properties should consider designing and implementing a survey that helps agencies identify underused or unnecessary space. The division should then consider advising agencies on space planning and identifying potential surplus properties.



Real Property Disposition

- Since 2009, surplus properties have increasingly sold below appraised values
- KRS 45A.045(4): "The selling price of any interest in real property shall not be less than the appraised value thereof as determined by the Finance and Administration Cabinet, or the Transportation Cabinet for the requirements of that cabinet."

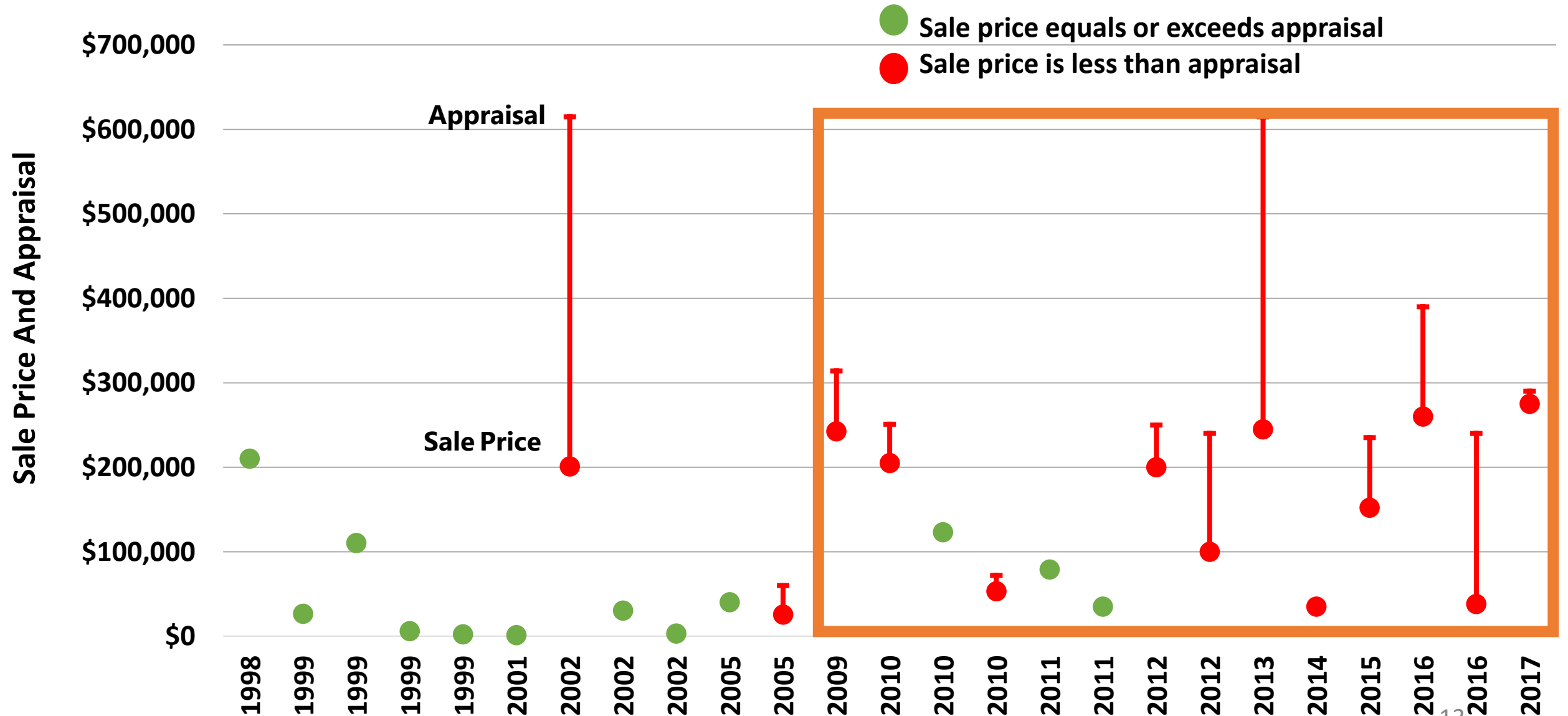


Appraisal And Sale

- Agencies contact DRP to dispose of property
- The division contracts with pre-qualified appraisers
- At least 5 appraisers are evaluated before awarding a contract
- DRP reviews appraisals and discusses any questions or concerns
- The division relies on the expertise of the appraiser

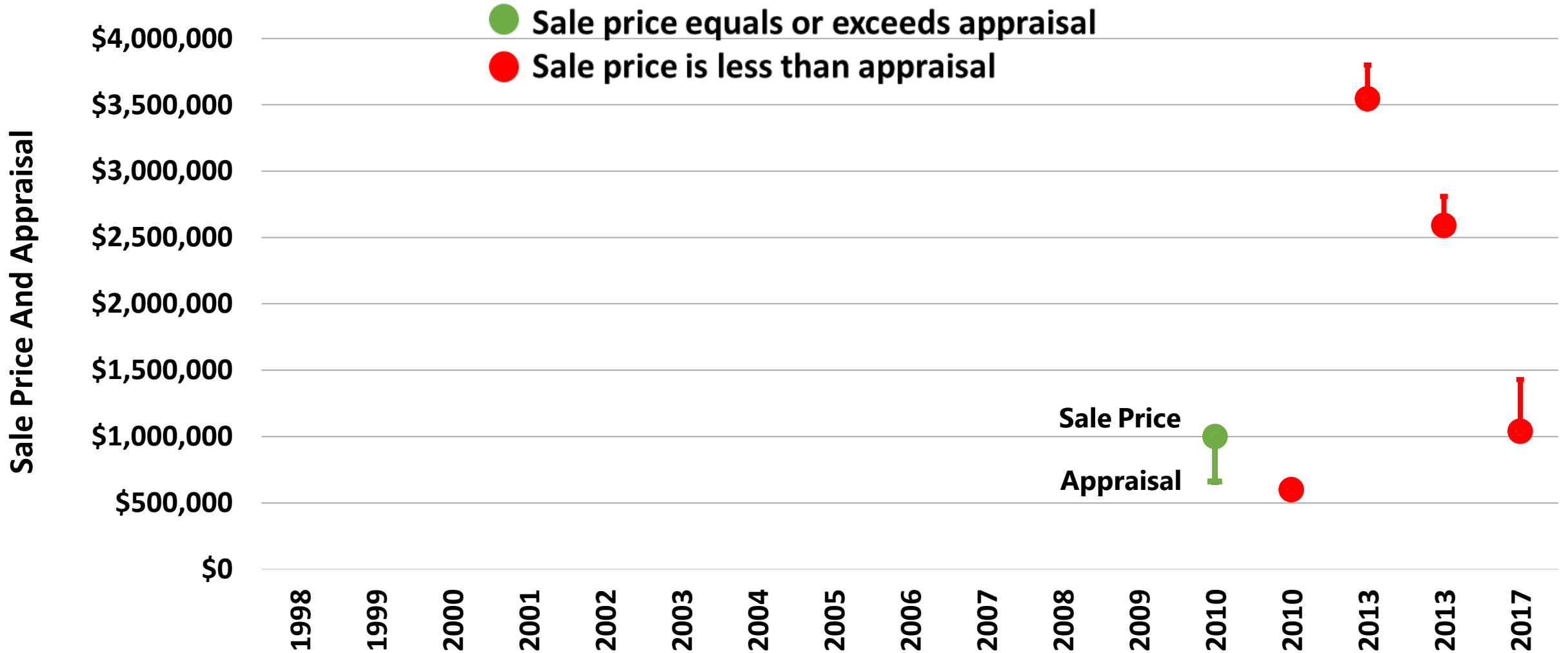


Properties Selling For Under \$500,000





Properties Selling For Over \$500,000





Sales And Appraisals, 1998 To 2017

- Appraisal total: \$13.6 million
- Total value of sales: \$11.5 million
- Difference: \$2.1 million

Locations Of Properties Sold February 21, 2012 To May 31, 2017





Surplus Real Property Best Practices

- Centralized real property asset management
 - Establishes standards for space utilization
 - Provides regular assessments
 - Proactively makes recommendations for surplus property
- More employees are mobile
 - Telecommuting and alternative workplace arrangements
 - Less square footage for office space



Georgia

- The State Properties Commission is a centralized real property management agency
- Asset Management Division
 - Total Cost of Occupancy
- Space Management Division
 - Space standards for types of positions and rooms



Tennessee

- State of Tennessee Real Estate Management Division (STREAM) manages most state-owned real property
 - Continues to centralize real property management
- Alternative Workplace Solutions
 - Work From Home
 - Mobile Work
 - Free Address



Leasing Of Real Property In Kentucky

- 1,481 active leases as of November 16, 2017
- State as lessee – 1,030
 - State paid \$50 million annual rent
- State as lessor – 451
 - State received \$14 million annual rent
- Majority of leases are fixed fee

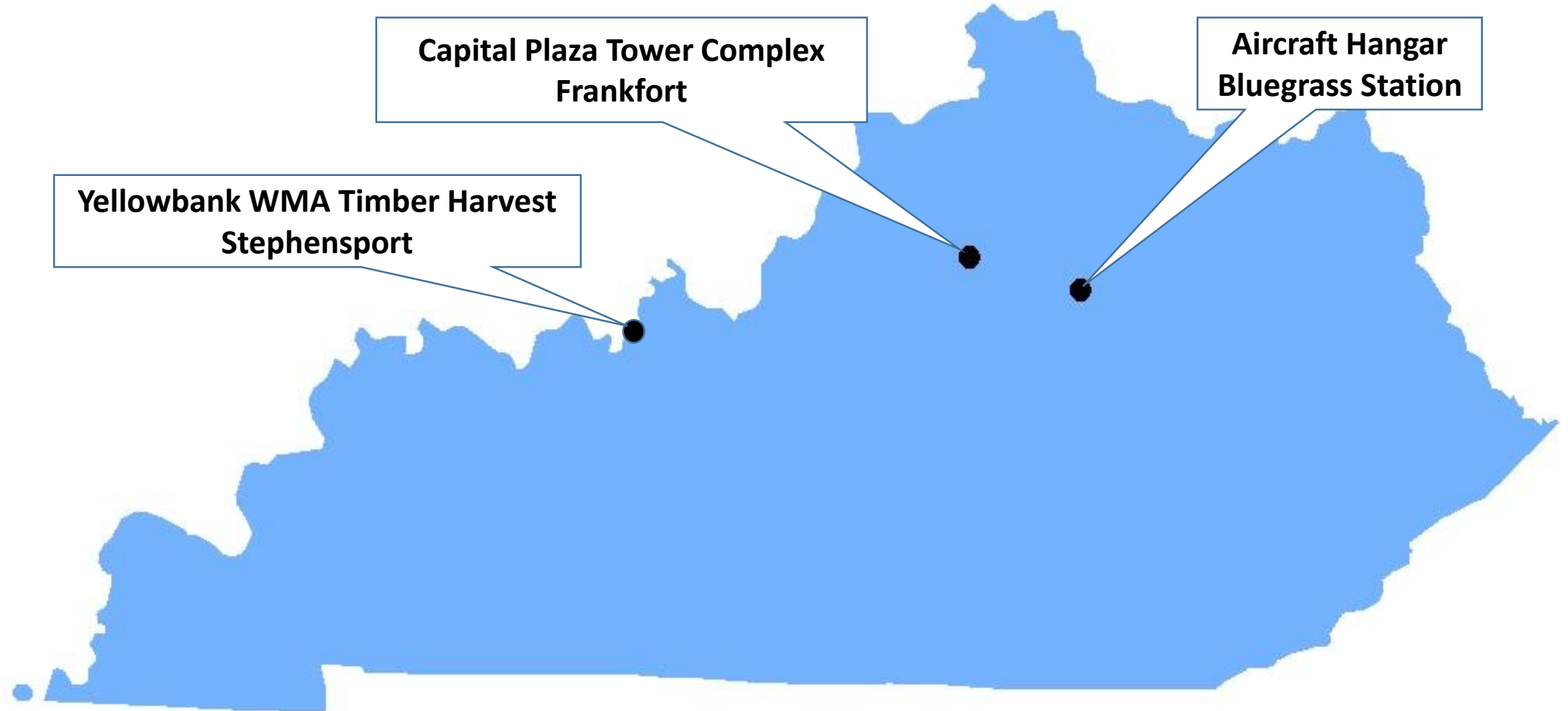


Leasebacks And Built-To-Suit

- State conveys land for capital project
- Contractor designs, finances, and builds the project
 - Contractor may be responsible for maintenance
- State occupies space and pays rent until lease amortizes



Locations Of Properties For Sale January 2, 2018





Leasing In Other States

- Washington has a capital construction leaseback model similar to Kentucky's
- Missouri has moved toward ownership since 2009
 - Reduced leased space by 15%, saved \$6.3 million
- Georgia will save an estimated \$10 million over the next 20 years through lease renegotiation
 - Overhaul of real property inventory reporting and management systems
- 2015 report: North Carolina could save \$2.6 million in future lease costs by optimizing state-owned space