

DEPARTMENT OF GENERAL SERVICES

Real Estate Modernization Hearing September 10, 2019

Testimony for
House State Government Committee
Senate State Government Committee



PRESENTED BY

Curt Topper
Secretary

Good morning Chairman Folmer, Chairman Williams, Chairman Everett, Chairman Boyle, and the members of the Senate and House State Government Committees.

It's a pleasure to be with you here today to talk about our real estate portfolio and how we hope to work together with members of the General Assembly to modernize our processes and reduce the Commonwealth's overall cost of operations.

I'm also pleased to be joined by representatives from the Pennsylvania State Police and the Department of Military and Veterans Affairs, who can provide the perspective of two important DGS customer agencies.

The agencies of the Commonwealth collectively maintain a significant and costly portfolio of real estate – approximately 15 million square feet combined owned and leased space across the state. For the facilities that we own, annual maintenance costs are well in excess of \$100 million in capital and operating funds. The facilities that we lease cost the Commonwealth more than \$200 million each year.

Just like many Pennsylvania businesses, over the last decade Commonwealth agencies have been moving to adopt more efficient modes of operating that require less space. But to the extent that we are unable to respond quickly to agencies' changing needs, we incur greater costs than necessary. We pay for unused space. We pay to heat empty buildings.

It has become imperative that we revisit the rules and processes that govern the Commonwealth's real estate transactions – most of which have been in place for more than 90 years. We must somehow achieve greater flexibility and speed in order to respond more effectively to today's business climate.

Over the last four years, DGS has made significant progress in real estate. We've reduced the average cycle time for new real estate lease processing by more than two-thirds. We've co-located more agency operations into multi-agency building leases, and we've reduced our overall lease footprint by more than 535,000 square feet.

Although I am proud of what we have accomplished so far, we've reached a point where we need help from the General Assembly to continue our progress. Our current statutory regime elongates our timeframes, increases our overall costs and prohibits us from taking advantage of modern commercial best practices.

The changes we propose are based on a few key ideas:

1. Time is Money

It is appropriate to ensure that we get the best possible price for the real estate we sell. That said, our experience suggests that the overriding factor determining the Commonwealth's total return on real estate sales is time.

SCI Pittsburgh

- Declared surplus in 2017
- \$2 million annual carrying costs
- Appraised at \$1.5 million
- \$4 million in carrying costs to date

Allentown State Hospital

- Declared surplus in 2012
- \$2 million annual carrying costs
- Appraised at \$2.6 million in 2012
- \$14 million in carrying costs to date

DGS Annex

- Unofficially declared surplus 2016
- \$5 million annual carrying costs
- Appraised at \$2 million in 2016
- \$15 million in carrying costs to date

New Castle YDC

- Declared surplus in 2013
- \$2 million annual carrying costs
- Appraised at \$100,000
- \$10 million in carrying costs until sold April 2018

As you can see from just these four examples, the annual carrying costs for the properties we sell are typically far in excess of what the properties are worth. Delays are costly and the time also matters for the Pennsylvania communities where our properties reside. They are understandably anxious to see them redeveloped and returned to their tax rolls.

The statutory role of the General Assembly isn't the only thing that can slow us down, but it is a significant factor that we hope to address.

Every time the Commonwealth acquires, sells, eases or otherwise restricts land, the General Assembly must introduce a bill and pass it through both chambers so that it can be signed by the Governor before DGS can act. This part of the process can take months to even years. For routine transactions, this is costly because it adds an element of uncertainty that is inconsistent with commercial standards. For larger property sales such as those I've mentioned, the costs of delay are in the millions.

2. Best Value

One of the reasons that property sales occasionally get held up is that members and their constituents are legitimately concerned about the ultimate disposition of the properties we sell. They want to make sure that we achieve the highest and best use for former state hospitals and the like. They want to ensure that the buyer's redevelopment plans are consistent with local needs. Current statute effectively requires DGS to sell properties to the highest bidder, without regard for any such concerns, so it represents a risk.

I believe the answer is to change the statute to permit DGS to execute property sales on a best value basis. We propose to allow the Department to create and follow a process for property sales wherein the Commonwealth could consider proposals from interested buyers and make the sale based on the proposal deemed most advantageous to community, even if at a lower price. The proposed process would involve participation from members of the General Assembly or their designees, so members' current prerogatives could be appropriately maintained while we accelerate the sales cycle.

3. Commercial Flexibility

Finally, there is an array of current statutory constraints on small routine real estate transactions and commercial leases that we would like to see lifted. It just doesn't make a lot of sense for us to require a piece of legislation in order to grant an easement or provide for the subdivision of an owned parcel. It doesn't make sense in 2020 for us to be required to advertise available properties exclusively in local newspapers instead of through the Multiple Listing Services or MLS used by real estate brokers.

With items like these in mind, we propose the following expanded authorities for DGS, which would streamline current processes and enable us to be more effective in the marketplace with respect to relatively routine transactions:

- Enabling DGS to grant a public service line agreement.
- Authorizing DGS to transfer and convey covenants and easements.
- Extending the term of leases of state-owned land to third parties from five years to twenty years.
- Enabling the Department of General Services to receive land as a gift.
- Enabling the Department of General Services to sell real estate online using a multiple listing service.
- Enabling the Department of General Services to engage a real estate broker when selling property.
- Enabling "Build-to-Suit, Lease-to-Own" clauses to be included in our lease agreements.
- Integrating the Downtown Location Law into the Department's leasing authority
- Enabling DGS convey surplus property directly to municipalities and other government entities.

Each of these practices will increase our flexibility and enable us to better manage the Commonwealth's real estate portfolio while offering the General Assembly opportunities to participate in the process. It will also position the Commonwealth to provide greater support to local economic development efforts and even to expand rural broadband.

I'm looking forward to working with members of this committee to change our real estate management regime for the better and bring our systems up to date.

Thank you. I'd be pleased to take any questions you might have.