

DEPARTMENT OF TRANSPORTATION

Inadequate Strategic Planning Has Left the State Route 710 Historic Properties Rehabilitation Project Nearly Without Funds and Less Than Half Finished

REPORT NUMBER 2000-127, DECEMBER 2000

Audit Highlights . . .

Our review of the Department of Transportation's (department) State Route 710 historic properties rehabilitation project revealed that the department:

- Did not use a strategic approach to ensure it would complete the project within the authorized funding.***
 - Completed the rehabilitation of less than half of the properties at an average cost of more than \$400,000 each, and has nearly exhausted the funding it received.***
 - Cannot demonstrate that it used the most cost-effective methods when performing work and that it exercised the discretion allowed by federal guidelines.***
 - Relied on an undocumented process to ensure work performed complied with applicable codes, and thus has limited assurance that all relevant code requirements were considered and applied properly.***
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We reviewed the Department of Transportation's (department) expenditure of state funds to rehabilitate historic properties along the proposed State Route 710 corridor. Our review found the following problems concerning the department's historic properties rehabilitation project:

Finding #1: The department did not adopt a strategic approach to ensure that it would complete the project within authorized funding.

The plan the department presented to the California Transportation Commission (CTC) in November 1996, when it requested \$16 million to rehabilitate 81 historic properties, did not adequately consider or address all relevant information. The estimates it used in support of its funding request were neither well developed nor feasible. Further, after receiving the CTC's approval for the additional funds, the department did not manage the project as though \$16 million was all the funding it would have to complete the 81 properties. Even when it became clear early in the project that funding was not adequate, the department did not raise this as a concern to the CTC or sufficiently explore other alternatives. In fact, it waited at least two years before it informed the CTC of its financial problems. As a result of not using a strategic approach, the department has rehabilitated only 39 of the 92 historic properties it currently owns and has nearly exhausted the \$19.4 million in funding it received to complete the entire project.

We recommended that in the future when faced with similar projects with funding constraints, the department should ensure that it assesses the needs of the entire project and prioritizes those needs. In addition, we recommended that the department notify funding authorities promptly when it becomes aware that existing funding will not be sufficient to meet project goals.

Department Action: Pending.

The department agreed to implement our recommendations on future projects that it undertakes.

Finding #2: The department cannot demonstrate that it exercised the discretion allowed by federal guidelines to achieve the most cost-effective approach to its historic properties rehabilitation project.

Although the department appears to have implemented certain cost-reduction measures, it could not demonstrate that it used the most cost-effective methods when performing work on the project. It is especially important for the department to be able to show that it was cost-effective to justify the significant amounts it spent rehabilitating its historic properties. On average, the department spent more than \$400,000 per property for those it completed. However, the department cannot demonstrate that it implemented a systematic approach for the project to ensure that it fully explored its options or exercised discretion allowed by federal guidelines, such as focusing rehabilitation efforts on the features that are most important in contributing to the overall significance of the property. As a result of these shortcomings, the department lacks assurance that it performed work on the project in the most cost-effective manner.

We recommended that to ensure any future rehabilitation work that the department performs is as cost-effective as possible, the department should develop revised cost estimates for each property using condition assessments that assist the department in prioritizing its rehabilitation efforts. The department should focus its efforts on those historic features that are most important in contributing to the overall significance of the property and consult with the Office of Historic Preservation to ensure that it takes advantage of the flexibility allowed by federal guidelines. In addition, it should consider the technical and economic feasibility of planned work when determining whether it has considered the least costly yet acceptable alternatives.

Department Action: Partial corrective action taken.

The department reports that condition assessment reports and related cost estimates have been completed for 7 of the 48 historic properties not yet rehabilitated. As part of the condition assessment process for each property, character-defining features are identified and prioritized. Additionally, the Office

of Historic Preservation reviews each condition assessment report. The department's goal is to have all of the condition assessment reports completed by December 2002.

Finding #3: The department's failure to consider long-range rehabilitation plans seems questionable.

When it requested federal participation in the State Route 710 extension project, the department proposed to the Federal Highway Administration millions of dollars in mitigation and rehabilitation efforts to minimize the adverse effects to the historic properties along the route. However, the department did not consider this as part of its planning process for the current historic properties rehabilitation project. The current rehabilitation project uses only state funds, but the extension project and subsequent rehabilitation will be funded primarily with federal funds. We question why the department would not have factored these future plans for rehabilitation into the decisions being made for the current rehabilitation project. Because it did not do so, the department lacks assurance that it made the most appropriate decisions on its current project and that it maximized the use of federal funds. Further, it does not appear as though the department was always clear with the CTC about its future mitigation plans when requesting state funds for the current project. Disclosure of the department's long-range plans and the impact of future federal funding is important information for the CTC to consider when it makes funding decisions.

We recommended that the department consider how future rehabilitation work to be performed as part of the department's long-range mitigation plans for the freeway will impact the proposed work.



Department Action: Pending.

The department states that it notes the proposed disposition of the historic properties under the current freeway alignment on the condition assessment reports it prepares. It further states that this information will be taken into consideration concerning any future work. However, the department did not otherwise address how it plans to consider the impacts future rehabilitation work to be performed as part of the department's long-range mitigation plans will have on the proposed work on the historic properties rehabilitation project.

Finding #4: The department did not consider expected selling prices when determining how much to spend performing work on each property.

All the historic properties acquired for the State Route 710 corridor will eventually be sold. However, the department did not perform any analyses to determine a reasonable amount of funds to spend on rehabilitation costs for the properties based on the earnings it could expect from their sale once they were declared excess property. Given that the department had discretion regarding the extent of work performed on the properties, the expected selling prices for the properties would have been useful information to consider when setting a budget for work to be performed.

We recommended that the department take into account that the properties will ultimately be sold, some at less than fair market value, when determining to what extent the remaining historic properties should be rehabilitated.

Department Action: Pending.

The department reports that it will take this information into consideration with regard to any future work performed. However, it did not address the extent to which it considered this information when preparing the seven cost estimates that have been completed.

Finding #5: Although the department is proposing options for vacating and preserving its historic properties, certain concerns need to be addressed.

In response to the department's request for additional funding in March 2000, the CTC asked the department to develop alternatives for minimizing costs. The department prepared two alternative plans based on the mothballing preservation treatment approach prescribed by the Secretary of the Interior. However, mothballing is intended to be only a temporary measure, which is of concern because the department does not know how long it needs to maintain the properties. Further, we noted some specific concerns regarding the department's mothballing proposals. For example, the department's mothballing proposals do not address providing adequate ventilation, although this is considered to be one of the highest priorities according to federal guidelines. Also, the department did not consult with historical experts, including the Office of Historic Preservation, to ensure that all significant features will be stabilized and maintained. As a result of the various shortcomings we noted, the department cannot ensure that it is presenting

an accurate estimate of the level of funding necessary for mothballing, or that mothballing is appropriate under the circumstances.

We recommended that if it pursues either of its mothballing proposals, the department should ensure compliance with federal guidelines, and it should obtain approval from the Office of Historic Preservation as to their propriety.

Department Action: Pending.

The department states that as of this time, the mothballing option has not been selected as the proposed treatment for the properties. According to the department, if mothballing is selected, it will take over one year to obtain appropriate environmental clearance. However, the department reports that the Office of Historic Preservation, during preliminary consultations, stated that mothballing may have an adverse effect on the historic districts and there may be other environmental impacts.

Finding #6: The department relied on the Department of General Services' (General Services) process, but did not require documentation to ensure the project complied with applicable codes.

The department relied on its contractor, General Services, to ensure that the work on its State Route 710 historic properties rehabilitation project complied with applicable codes. General Services appears to have a process designed to ensure that it considers and applies codes relevant to the project. However, General Services did not document the key judgments it made in carrying out its process, such as identifying the specific code requirements applicable to this project because it is not its standard practice to do so. Additionally, it did not document its process for ensuring that code requirements were applied properly. Because the department neither required General Services to document its process nor conducted its own review to ensure compliance with codes, the department has limited assurance that staff considered and applied properly all relevant code requirements when performing work on the project. In fact, neither General Services nor the department considered the State code section that requires the department to conform to local building codes that were in effect at the time it acquired its properties.

We recommended that to ensure future work on this or any similar projects complies with all applicable codes, the department should develop a process to identify and evaluate all code requirements related to the project, including evaluating local codes to determine whether they apply, and if so, whether they conflict with applicable state codes. Additionally, the department should ensure that it can demonstrate it has considered and applied properly the relevant code requirements.

Department Action: Partial corrective action taken.

The department reports that a checklist has been developed to identify local code violations as well as decent, safe, and sanitary standards and that it is working well. However, the department points out that it is important to note that property use is an important factor in determining the level of work required on the properties.

Finding #7: Questions have been raised about the project's compliance with building codes.

Tenants raised concerns with local building inspectors that rehabilitation work on the project did not conform to codes. Local building inspectors inspected three of the properties that had been rehabilitated and discovered several violations of the city code and the Uniform Building Code. We questioned General Services about some of these apparent violations. Although General Services' explanations appear reasonable, they raise questions about how well the department has communicated with the tenants and local authorities regarding what they should expect from the department's rehabilitation work.

Both the department and General Services have indicated that they do not believe current local codes apply to the rehabilitation work. It seems apparent, however, that both tenants and local building inspectors expected these rehabilitated properties to meet local building codes. This gap between the community's expectation that the work would comply with local building codes and the department's assertion that those codes do not apply to the rehabilitation project illustrates a need for the department to provide better information about what the community can expect in rehabilitated historical properties and why.

We recommended that the department look for methods that will provide the community with better information about what they can expect in rehabilitated historic properties.



Department Action: Pending.

The department agreed to implement our recommendation when it initially responded to our audit. However, it did not report the status of this recommendation in its one-year response to us.

