

# California Department of Transportation

## Its Poor Management of State Route 710 Extension Project Properties Costs the State Millions of Dollars Annually, Yet State Law Limits the Potential Income From Selling the Properties

### REPORT NUMBER 2011-120, ISSUED AUGUST 2012

This report concludes that the California Department of Transportation (Caltrans) has spent nearly \$22.5 million to repair the properties it owns between July 1, 2008, and December 31, 2011, which exceeds the rental income it collected by \$9.7 million. Caltrans charges the majority of the State Route 710 (SR 710) property tenants rents that are, on average, 43 percent below market rate. By doing so, we estimate that Caltrans has foregone \$22 million in rental income between July 1, 2007, and December 31, 2011. Further, our legal counsel advises us that generally Caltrans' rental of the SR 710 properties at below-market rates may constitute a prohibited gift of public funds.

Caltrans has spent an average of \$6.4 million per year on repairs to the SR 710 properties; however, it could not demonstrate that the repairs for many of the properties were reasonable or necessary. Caltrans maintains the SR 710 properties by either contracting directly with service providers or requesting that the Department of General Services (General Services) complete specific repairs. However, Caltrans did not always perform annual inspections to determine whether repairs were necessary. Furthermore, Caltrans often authorized repairs that far exceeded the properties' potential rental income. Also, General Services exerts insufficient oversight over several repair project cost areas. For example, General Services' construction unit does not properly monitor its labor charges. General Services also did not follow state law and policies governing purchases from small businesses. We found that the owner of a small business that does a large amount of business with General Services is related to the owners of two other small businesses that General Services made purchases from, and these companies with related owners bid against each other. Consequently, other qualified suppliers may not have had a fair opportunity to participate in the competitive solicitation process.

As of March 1, 2012, Caltrans estimated that the market value of the SR 710 parcels was \$279 million, with single- and multi-family residential parcels comprising \$238 million, or 85 percent, of the estimated market value. However, if the State were to deem these residential parcels as surplus and sell them in accordance with the state law known as the Roberti Bill, it could potentially receive only \$40 million, or 17 percent of their estimated market value. Further, if the SR 710 residential parcels were sold under the Roberti Bill, they would generate only a fraction of the property tax revenues that they would otherwise if the State sold them at fair market value. While Caltrans is determining whether it will proceed with the SR 710 extension project, the State could consider certain alternatives that would allow it to retain access to the right-of-way needed for the extension project. One option Caltrans could consider is contracting with one or more private contractors to provide property management services to maintain the SR 710 properties. Another option to consider is the establishment of a joint powers authority (JPA) that would include Caltrans and the cities of Pasadena, South Pasadena, and Los Angeles to manage the SR 710 properties.

In the report, the California State Auditor (state auditor) made the following recommendations to Caltrans and General Services. The state auditor's determination regarding the current status of recommendations is based on Caltrans' and General Services' responses to the state auditor as of October 2012.

#### **Recommendation 1.1.a—See pages 20—24 of the audit report for information on the related finding.**

To ensure that it collects fair market rents for the SR 710 properties on the State's behalf, Caltrans should, using the fair market rent determinations for all SR 710 properties it recently prepared and excluding those in its affordable rent program, adjust the tenants' rents to fair market after providing them with proper notice.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is in the process of assessing rental rate increases to fair market rent and has sent letters to all SR 710 tenants requesting their financial information. Caltrans also stated that, once it completes its analysis of all of the information, it will work with the Business, Transportation and Housing Agency (agency) to determine the best course of action for it and the State. Caltrans anticipates that, after providing the affected tenants with the requisite 60-day notice, rental rate increases will be effective March 1, 2013.

**Recommendation 1.1.b—See pages 21—24 of the audit report for information on the related finding.**

To ensure that it collects fair market rents for the SR 710 properties on the State's behalf, Caltrans should make only limited exceptions to charging fair market rent and document the specific public purpose that is served in any case that it does not charge fair market rent.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is in the process of assessing rental rate increases to fair market rent and has sent letters to all SR 710 tenants requesting their financial information. Caltrans also stated that, once it completes its analysis of all of the information, it will work with the agency to determine the best course of action for it and the State. Caltrans anticipates that, after providing the affected tenants with the requisite 60-day notice, rental rate increases will be effective March 1, 2013.

**Recommendation 1.2.a—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should establish procedures to notify state employees who rent SR 710 properties that they may be subject to tax implications.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it has notified state employees who rent SR 710 properties that they may be subject to tax implications. However, Caltrans did not specifically address whether or not it established procedures.

**Recommendation 1.2.b—See page 25 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts employees receive are appropriately included in their gross income, Caltrans should continue to work with its information technology division to generate the reports necessary for it to provide the State Controller's Office (state controller) with the value of the state housing for its employees monthly.

***Caltrans' Action: No action taken.***

➔ Caltrans did not specifically address this recommendation.

**Recommendation 1.2.c—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should work with the state controller to identify the statute of limitations for employers to report adjustments to employee gross income to the federal Internal Revenue Service and the California Franchise Tax Board.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it obtained consent from the Attorney General's Office (attorney general) to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the State Bar of California's (state bar) Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.2.d—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should work with the state controller to identify the difference between the fair market rental value of the SR 710 housing and the rent state employees paid for that housing during the applicable calendar years related to the federal and state statute of limitations.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it obtained consent from the attorney general to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the state bar's Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.2.e—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should work with the state controller to determine if it needs to revise the W-2 forms for the other employees to whom Caltrans provided housing benefits, including the four employees who worked at its Chilao Maintenance Station.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it obtained consent from the attorney general to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the state bar's Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.2.f—See pages 24—27 of the audit report for information on the related finding.**

To ensure that all taxable fringe benefits or gifts state employees receive are appropriately included in their gross income, Caltrans should provide information to the other state agencies so that they can submit the standard form for reporting the value of the housing provided to their employees for the applicable past calendar years to the state controller. Caltrans should continue to submit this information monthly to the applicable state agencies until the state employees are no longer renting the SR 710 properties at below-market rates.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it obtained consent from the attorney general to retain independent legal counsel specializing in taxation to provide legal advice on the tax issues raised in this recommendation. Caltrans also stated that it sent a request for proposal on September 14, 2012, to several law firms listed on the state bar's Web site. According to Caltrans, upon receiving a legal opinion from the selected firm, it and the agency will evaluate the appropriate course of action for it and the State.

**Recommendation 1.3.a—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the affordable rent policy is enforceable and that only eligible tenants receive the benefit of the policy, Caltrans should adopt regulations in accordance with the Administrative Procedure Act (APA) if the director determines that it is appropriate to continue to offer affordable rent to certain tenants.

***Caltrans' Action: Pending.***

Caltrans stated that the director is reviewing the affordable rent program to determine if it is appropriate to continue offering it to certain tenants and/or to expand it to include other tenants. Caltrans also stated that it is expected that the director will make a decision by November 2012.

**Recommendation 1.3.b—See pages 27—29 of the audit report for information on the related finding.**

To ensure that the affordable rent policy is enforceable and that only eligible tenants receive the benefit of the policy, Caltrans should annually review and document the tenants' household incomes using income certification forms. If tenants no longer qualify for the program because their income exceeds the income requirement or one of the income-producing tenants in the household has been replaced by a new tenant, it should increase their rent to fair market rates after giving proper notice.

***Caltrans' Action: Pending.***

Caltrans stated that the director is reviewing the affordable rent program to determine if it is appropriate to continue offering it to certain tenants and/or to expand it to include other tenants. Caltrans also stated that the director's decision is expected by November 2012.

**Recommendation 2.1.a—See page 32 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should document its rationale for approving project change orders.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to document their rationale for approving project change orders, effective immediately. Caltrans also stated that it is on track to complete the specific policy and procedures to ensure compliance and the related training by December 31, 2012.

**Recommendation 2.1.b—See pages 32 and 33 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should conduct annual field inspections of the properties.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to conduct annual field inspections of the properties, effective immediately. Caltrans stated that as of October 9, 2012, it had completed 371 of the 433 inspections and that it is on target to complete the remaining inspections by December 31, 2012.

**Recommendation 2.1.c—See page 33 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should discontinue performing roofing repairs on properties its roof assessments indicate are in good condition, unless a new assessment indicates a repair is needed.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, requiring all roof repair orders to have an updated assessment to determine if the repairs are necessary, effective immediately. Caltrans also stated that it is on track to complete the specific policy and procedures to ensure compliance by December 31, 2012.

**Recommendation 2.1.d—See pages 32 and 33 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should incorporate roof assessments as part of its annual field inspections of the properties.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it incorporated roof assessments as part of its annual inspections of properties. Caltrans also stated that it is on track to complete the specific policy and procedures to ensure compliance by December 31, 2012.

**Recommendation 2.1.e—See pages 34—36 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should develop a written policy to ensure that it considers the cost-effectiveness of repair costs for historic and nonhistoric projects in relation to the potential rental income for the property. Such a policy should establish the maximum acceptable cost-recovery period for the amount it will spend for repairs, above which the repairs will be considered wasteful.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is developing a policy to assess the cost-effectiveness of repair costs, which will include evaluating a cost-recovery period for repairs. Caltrans also stated that it is on track to issue the policy and provide training to all employees by December 31, 2012.

**Recommendation 2.1.f—See pages 34—36 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should establish a process to ensure it evaluates the cost-effectiveness of any repair before authorizing it.

***Caltrans' Action: Partially implemented.***

Caltrans stated that its District 7 office management is developing a standardized process for evaluating the cost-effectiveness of repairs. Caltrans also stated that it anticipates implementing this process and providing training to the appropriate staff by December 31, 2012.

**Recommendation 2.1.g—See pages 32—36 of the audit report for information on the related finding.**

To ensure that the repairs it makes to the SR 710 properties are necessary and reasonable, Caltrans should retain in its project files evidence to support the necessity and reasonableness of repairs, such as change orders, annual field inspections, and analyses of cost-effectiveness.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to retain the required evidence to support the necessity and reasonableness of repairs in the project files, effective immediately. Caltrans also stated that it is on track to issue the specific policy and provide training to the appropriate staff by December 31, 2012.

**Recommendation 2.2—See pages 38 and 39 of the audit report for information on the related finding.**

To ensure that the State achieves cost savings for the repairs made to the SR 710 properties, Caltrans should periodically perform more comprehensive analyses of viable options for repairing the properties. If Caltrans determines that General Services is the best option, it should ensure that it properly executes an interagency agreement in accordance with the *State Contracting Manual*.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is evaluating the best method to perform a cost comparison of options for the maintenance of the SR 710 properties. Caltrans anticipates completing the cost comparison by December 31, 2012. Caltrans also stated that, in the meantime, it initiated the execution of an interagency agreement with General Services.

**Recommendation 2.3—See pages 36—38 of the audit report for information on the related finding.**

To ensure that it appropriately executes interagency agreements with other state agencies, General Services should provide training to construction unit staff.

***General Services' Action: Pending.***

General Services stated that the construction unit will schedule its staff to attend the Services Contracting course offered by the California Procurement and Contracting Academy (Cal-PCA). General Services also stated that this course is taught by staff from its office of legal services and includes coverage of the State's requirements for the use of interagency agreements to contract with other state agencies.

**Recommendation 2.4.a—See pages 39—40 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should ensure that its staff adhere to relevant contracting policies, including retaining evidence of its approval of General Services' repair work before and after the completion of a project in the project file.

***Caltrans' Action: Partially implemented.***

Caltrans' District 7 office management issued a memo on September 27, 2012, instructing staff to retain the required evidence to support the necessity and reasonableness of repairs in the project files, effective immediately. Caltrans stated the required evidence would include approval of General Services' work before and after project completion. Caltrans also stated that it is on track to issue the specific policy and provide training to the appropriate staff by December 31, 2012.

**Recommendation 2.4.b—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should reconcile General Services' estimates for the repair projects with the scope of work the Department of Finance (Finance) approved in the transfer request form, and, if applicable, explain any differences.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is meeting with General Services to develop a process to reconcile the estimates for repairs with the scope of work in the transfer request forms. Caltrans expects this process to be in place by December 31, 2012.

**Recommendation 2.4.c—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should reconcile the actual work General Services performs to the scope of work approved in the project work plans.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is meeting with General Services to develop a process to reconcile the actual work performed to the scope of work approved in the project work plans. Caltrans expects this process to be in place by December 31, 2012.

**Recommendation 2.4.d—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should reconcile the actual expenditures for the projects listed in the transfer request form approved by Finance and the approved budget in the project work plans with General Services' actual expenditures for each project.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is using its March 2012 tracking spreadsheet to reconcile actual expenditures to the approved budget for the work being done by General Services. However, the effectiveness of this spreadsheet is contingent upon Caltrans' implementation of recommendation 2.4.e. Further, Caltrans did not specifically address whether or not it reconciles the actual expenditures for the projects listed in the transfer request form approved by Finance.

**Recommendation 2.4.e—See pages 40 and 41 of the audit report for information on the related finding.**

To ensure that General Services performs only necessary repairs and that its costs are reasonable, Caltrans should modify its March 2012 tracking spreadsheet to ensure that it contains sufficient information for Caltrans to effectively monitor repair costs.

***Caltrans' Action: Partially implemented.***

Caltrans stated that it is working with General Services to obtain the necessary data to monitor repair costs. Caltrans anticipates it will complete the final modifications to its March 2012 tracking spreadsheet on or before December 31, 2012.

**Recommendation 3.1.a—See pages 43—45 of the audit report for information on the related finding.**

To ensure that it charges its clients appropriately for the work it performs, General Services should reassess the construction unit's methodologies for determining the hourly burden rate and direct administration fees.

***General Services' Action: Partially implemented.***

General Services stated that its construction unit will revise its rate-setting process for fiscal year 2013–14 to fully address the state auditor's concerns. General Services also stated that the revised process will ensure that the construction unit's hourly burden rate and direct administration fees are accurately and properly calculated based on prior year expenditure data and projected billable hours. Further, General Services stated that, to date, the construction unit has consulted with General Services' budget, accounting, and information technology staff on improvements that can be made to its rate and fees calculation function.

**Recommendation 3.1.b—See pages 43—45 of the audit report for information on the related finding.**

To ensure that it charges its clients appropriately for the work it performs, General Services should ensure that the construction unit's methodologies are sound and that it can properly support them.

***General Services' Action: Partially implemented.***

General Services stated that its construction unit will revise its rate-setting process for fiscal year 2013–14 to fully address the state auditor's concerns. General Services also stated that the revised process will ensure that the construction unit's hourly burden rate and direct administration fees are accurately and properly calculated based on prior year expenditure data and projected billable hours. Further, General Services stated that, to date, the construction unit has consulted with General Services' budget, accounting, and information technology staff on improvements that can be made to its rate and fees calculation function.

**Recommendation 3.2—See pages 46—48 of the audit report for information on the related finding.**

To determine if the construction unit's use of casual laborers to perform work not in their job specifications, such as procurement, is cost-effective, General Services should perform an analysis comparing the cost of paying the casual laborers at the prevailing wage rate and the cost of paying permanent civil service employees. If it finds that using permanent employees is cost-effective for the State, General Services should seek approval for additional permanent employees to perform those functions.

***General Services' Action: Partially implemented.***

General Services stated that its construction unit is in the final stages of analyzing the cost effectiveness of its practice of using a limited number of casual laborers to occasionally perform office administrative type tasks, such as procurement.

**Recommendation 3.3.a—See pages 46—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should require that the civil service supervisor who has knowledge of the time the casual laborer works approve the casual laborer's daily time report and the Activity Based Management System time charges.



*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.3.b—See pages 46—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should ensure that the daily time reports for casual laborers contain the appropriate task codes, the laborer's signature, and the approval of a civil service supervisor.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.3.c—See pages 48—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should update its construction unit manual to formalize its standard practice of using daily job reports for each project.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.3.d—See pages 48—50 of the audit report for information on the related finding.**

To ensure that the casual laborers charge only for their actual hours worked on projects, General Services should retain the daily job reports and the daily time reports in the project files.

*General Services' Action: No action taken.*

General Services did not specifically address this recommendation.



**Recommendation 3.4—See page 50 of the audit report for information on the related finding.**

To ensure that it complies with its nepotism policy, General Services should have its office of human resources review and approve its existing temporary authorization appointments for casual laborers. If the office of human resources finds that personal relationships exist, General Services should take appropriate action in accordance with its policy.

*General Services' Action: Partially implemented.*

General Services stated that its office of audit services is conducting a review of the construction unit's operations to determine compliance with the nepotism policy. General Services also stated that it is updating its nepotism policy, as well as the nepotism process contained in its Personnel Operations Manual, to provide additional guidance to staff. General Services plans to issue its updated nepotism policy by October 31, 2012. Further, General Services stated that, upon issuance of the new policy, its office of human resources will work with the construction unit to ensure that the construction unit's staff are fully trained on its nepotism policy and practices.

**Recommendation 3.5.a—See page 55 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should require the construction unit to immediately discontinue its current procurement practices that are inconsistent with the State's procurement laws and policies.

***General Services' Action: Partially implemented.***

General Services stated that the construction unit has taken actions to discontinue any procurement practices that do not comply with state requirements, including the implementation of additional policies and procedures that ensure the rotating of suppliers and obtaining a minimum of two quotes for all purchases. Further, General Services stated that the construction unit headquarters staff are actively monitoring compliance with the new operating requirements.

**Recommendation 3.5.b—See page 55 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should require the construction unit to modify the procurement section of its manual to conform to the State's procurement laws and policies.

***General Services' Action: Partially implemented.***

General Services stated that the construction unit is updating the procurement section of its policy manual to conform to the State's procurement requirements and plans to issue its updated policies by November 30, 2012.

**Recommendation 3.5.c—See pages 50—55 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should provide training to its construction unit employees regarding the State's procurement laws and policies.

***General Services' Action: Partially implemented.***

General Services stated that, based on course availability, the construction unit is actively enrolling its purchasing staff in Cal-PCA courses that provide acquisition specialists with the knowledge essential to conduct purchases in accordance with state requirements.

**Recommendation 3.5.d—See page 56 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should clarify the waiver process in the administrative order governing the small business participation goal.

***General Services' Action: Partially implemented.***

General Services stated that it will amend its administrative order to include additional examples of situations in which waivers may be granted. General Services plans to issue its amended administrative order by November 30, 2012.

**Recommendation 3.5.e—See page 56 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should continue its efforts to implement regulations that govern the small business certification process related to defining and enforcing violations of commercially useful function requirements.

***General Services' Action: Partially implemented.***

General Services expects the Office of Administrative Law (OAL) will approve the final regulations by January 31, 2013.

**Recommendation 3.5.f—See pages 50—57 of the audit report for information on the related finding.**

To ensure that the construction unit complies with the State's procurement laws and policies, General Services should conduct an investigation of the small businesses we discussed in the report to determine if they are performing a commercially useful function.

***General Services' Action: Partially implemented.***

General Services stated that its office of audit services, in consultation with its construction unit and office of small business and disabled veterans business enterprise services, is investigating the small businesses discussed in the report to determine if they are performing a commercially useful function.

**Recommendation 4.1—See pages 59—64 of the audit report for information on the related finding.**

To ensure the State properly manages its resources, the Legislature should consider amending the state law known as the Roberti Bill to allow Caltrans to sell SR 710 properties that have high market value at fair market prices.

***Legislative Action: Legislation vetoed.***

The governor vetoed Senate Bill 204 of the 2011–12 Regular Legislative Session on September 30, 2012. This bill would have required the California Transportation Commission and Caltrans to declare as excess certain state properties acquired for the SR 710 surface freeway extension and required Caltrans to expeditiously release those properties for sale, with the tenants of those properties being offered the first right of refusal to purchase the properties at fair market value.

**Recommendation 4.2—See page 60 of the audit report for information on the related finding.**

To comply with the 2007 court ruling and the APA until such time as the Legislature may choose to act, Caltrans should establish regulations to govern the sales process for the SR 710 properties affected by the Roberti Bill.

***Caltrans' Action: Partially implemented.***

Caltrans stated it anticipates submitting its proposed regulations to OAL for approval by the end of 2012.

**Recommendation 4.3.a—See page 65 of the audit report for information on the related finding.**

To pursue alternatives to its management of the SR 710 properties, Caltrans should prepare a cost-benefit analysis to determine if the State would save money by hiring a private vendor to manage the properties. If such savings would occur, Caltrans should seek an exemption under Government Code, Section 19130 (a), to hire a private vendor.

***Caltrans' Action: Partially implemented.***

Caltrans stated it hired a consultant to perform an independent cost-benefit analysis of the following property management options for the SR 710 properties: hiring a private vendor, establishing a JPA, and transferring the properties to a local transportation entity. The local transportation entity would take over ownership and management of the properties and use the proceeds of the sale for local transportation improvements. Caltrans also stated that its first meeting with the consultant would be held in October 2012 to develop a work plan with target dates.

**Recommendation 4.3.b—See page 66 of the audit report for information on the related finding.**

To pursue alternatives to its management of the SR 710 properties, Caltrans should perform an analysis to compare the cost of establishing a JPA to its current costs of managing the properties.

***Caltrans' Action: Partially implemented.***

Caltrans stated it hired a consultant to perform an independent cost-benefit analysis of the following property management options for the SR 710 properties: hiring a private vendor, establishing a JPA, and transferring the properties to a local transportation entity. The local transportation entity would take over ownership and management of the properties and use the proceeds of the sale for local transportation improvements. Caltrans also stated that its first meeting with the consultant would be held in October 2012 to develop a work plan with target dates.

**Recommendation 4.4—See pages 64—66 of the audit report for information on the related finding.**

To pursue alternatives to the State's management of the SR 710 properties that would preserve its access to the right-of-way needed for the extension project, to the extent that Caltrans has determined it to be cost-beneficial to do so, the Legislature should consider the establishment of a JPA that would allow Caltrans and the affected cities to jointly manage the SR 710 properties.

***Legislative Action: Unknown.***

The state auditor is not aware of any action taken by the Legislature as of December 18, 2012.