# TEXAS FACILITIES COMMISSION STATE SURPLUS PROPERTY PROGRAM PERFORMANCE REPORT

# OCTOBER 15, 2024

The Texas Facilities Commission (TFC) was originally established in 1919 as the State Board of Control by the 36th Legislature's enactment of Senate Bill 147. Through ensuing Legislatures, the State Board of Control has changed names and was assigned building and procurement roles for the State. HB 3560 of the 80th Texas Legislature was the culminating event that transferred the procurement responsibilities to the Comptroller of Public Accounts. The remaining facilities division became the Texas Facilities Commission. TFC supports state government through strategic facilities planning, asset management, design, construction, operation, maintenance, leasing of state facilities. In addition, pursuant to Texas Government Code 2175, TFC is charged with the administration of the Texas State and Federal Surplus Property Programs.

In FY24, State Surplus sales totaled approximately $9.3 million. Approximately $7.5 million of Surplus sales was remitted back to state agencies, and roughly $100,956 was returned to various political subdivisions from the sale of confiscated gambling equipment. An additional $43,267 was deposited directly to the General Revenue fund for sales of confiscated gambling equipment.

**BENEFITS OF CENTRALIZED PROGRAM**

- The State Surplus Program had sales totaling approximately $9.3 million in FY24.
- TFC State Surplus has generated approximately $9.6 million/year in revenue for the state over the past five years (FY20-24).
- In FY24, TFC Surplus ensured 113 agencies properly disposed and processed over 79,000 state assets in accordance with TX Gov §2175.
- State Surplus is a 100% cost reimbursement program - operates at zero cost to the state.

# STATE SURPLUS PROPERTY PROGRAM

The State Surplus Property Program is responsible for overseeing the disposal of surplus and salvage state agency personal property in a way that maximizes revenue to the State. The Program sells surplus and salvage state property from Texas state agencies to the public utilizing two basic sales methods - retail/direct sales and auctions. TFC is required to develop and track performance benchmarks and targets necessary to evaluate the efficiency and effectiveness of the State Surplus Property Program, and should explicitly assess the timeliness, cost, and profitability of program operations.

TFC is required to report on the following:

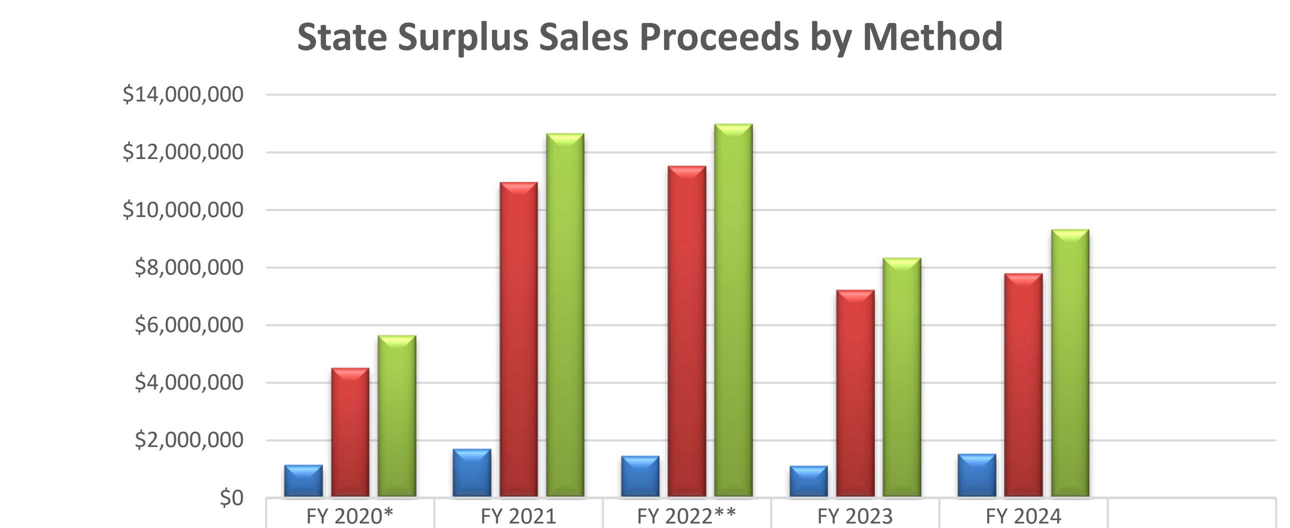
1. Surplus property sales proceeds for the previous fiscal year by the method of sale. In addition, the report submitted shall contain a five-year history of sales proceeds by way of sale.
2. Distribution of surplus property sales proceeds for the previous fiscal year, including, at a minimum, remittances to state agencies, expenditures by the State Surplus Property Program, and amounts returned to General Revenue.
3. Break out the direct and indirect operational costs incurred by the State Surplus Property Program during the previous fiscal year. In addition, the report submitted shall contain a five-year history of the distribution of sales proceeds.
4. The percent of the estimated inventory value of surplus property items recovered through disposal, by sales method, for the previous fiscal year. Inventory value is defined as the estimated value assigned to an item upon receipt by the Program.
5. The timeliness of surplus property disposal for the previous fiscal year by the method of sale. Timeliness is defined as the time, in days, between receipt of the property by the Program and final disposition of the property through sale, salvage, donation, or other means of disposal.
6. A description of the risk assessment process used by the Program to target select agencies for education and outreach efforts, ensuring appropriate and timely identification of disposition of eligible surplus property. The description must include how the education and outreach efforts used in targeting these agencies differ from standard program efforts.

## PART 1: SALES PROCEEDS BY METHOD OF SALE

This section contains the surplus property sales proceeds for the previous five-year period by the method of sale. As noted above, the State Surplus Property Program utilizes two basic forms of sale: retail/direct sales and auctions. Sales for FY24 totaled approximately $9.3 million.

1. <u>Retail/Direct Sales</u>:
    a. Direct sales to the public take place primarily at the Austin store location.
    b. In FY09, the Program began selling surplus property acquired from the City of Austin through an Interlocal Cooperation Contract. That agreement continues today.
    c. Types of items sold include office furniture, office equipment, tools, and vehicles.

2. Auction Sales:
    a. The Program completed 216 online auctions statewide in FY24.
    b. Contracted internet auction brokers conduct online sales. Property sold through an internet broker may be in possession of TFC or at a remote location belonging to a State agency or county that has requested TFC to dispose of its salvage or surplus property. Types of items sold utilizing this method of sale include vehicles, seized gambling equipment, heavy equipment, specialty equipment, or other unique items. Online sales may also include articles of large quantity which benefit from the increased market publicity available via an online sale.
    c. Live auctions may be conducted at the request of a using agency when circumstances are favorable.




| | FY 2020* | FY 2021 | FY 2022** | FY 2023 | FY 2024 |
|---|---|---|---|---|---|
| Retail/Direct Sales | $1,135,145 | $1,698,842 | $1,455,644 | $1,105,995 | $1,517,422 |
| Auction | $4,500,783 | $10,953,864 | $11,521,945 | $7,215,860 | $7,795,820 |
| Approximate Totals | $5,635,928 | $12,652,706 | $12,977,589 | $8,321,855 | $9,313,242 |

Above sales exclude state and local sales taxes. Surplus sales can be impacted by the volume of items considered surplus by State agencies.

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**FY20 saw a drastic reduction in sales in the second half of the fiscal year due to COVID-19. The State Surplus Store in Austin was closed to the public beginning March 18, 2020, due to the health-related concerns. Auctions were also put on hold, resulting in very limited sales opportunity for the remainder of FY20.*

***FY22 saw a significant increase in auction sales due to COVID-19 lag in disposals from FY20 and FY21. In addition, the opening of the Barbara Jordan and the George HW Bush state office buildings generated an increase in asset disposals resulting from agencies formerly in leased space moving into state-owned space.*

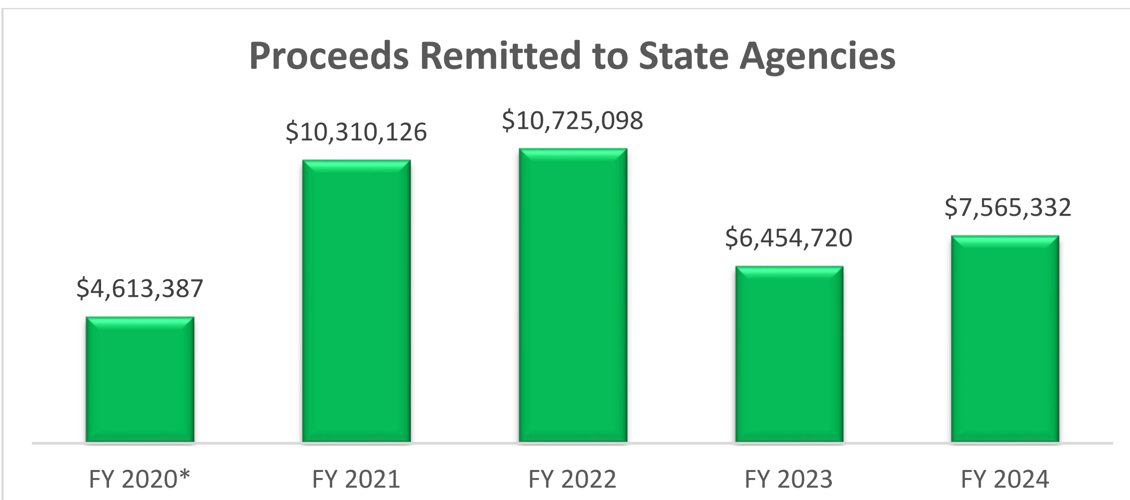
## PART 2: DISTRIBUTION OF SALES PROCEEDS

Distribution of surplus property sales proceeds for the previous fiscal year, including, at a minimum, remittances to state agencies, expenditures by the State Surplus Property Program, and amounts returned to General Revenue.

Sales proceeds were generated by sales processed between September 1, 2023, and August 31, 2024. These figures will not match actual sales revenue recognized during the same period due to lag times in the credit card transactions and end-of-year processing activities.

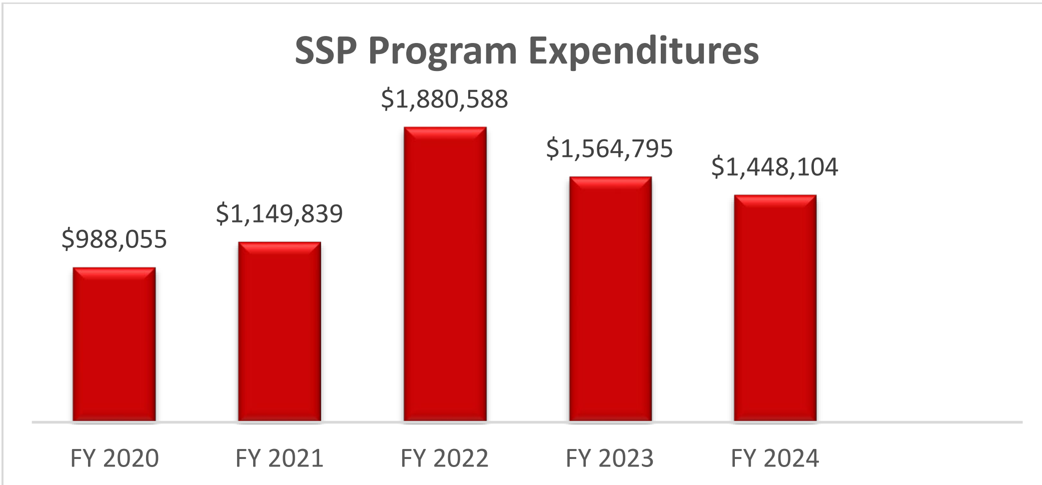
1. Remittance to State agencies

   TFC collects a fee to cover the sales cost and remits the remainder to the owning agency. Most State agencies are authorized to expend 25 percent of the receipts from surplus property sales for similar property, equipment, or commodities, except for the Texas Department of Transportation who is authorized to expend 100%. The Program returned $100,956.77 to various political subdivisions for the sale of confiscated gambling equipment. In addition, the Program deposited $43,267 to the State General Revenue fund for gambling equipment sales.




2. Program Expenditures

   TFC's State Surplus Property Program operates as a 100% cost recovery program. All costs associated with operating the Program and the disposal of the surplus must be fully recovered by the revenue generated by the Program. Below is a table listing the total costs associated with warehousing, cataloging, and administering surplus property and sales activities for the past five fiscal years.




3. Other Savings to State Agencies: Cost Avoidance and Increased Efficiency

The Program is responsible for performing several of the below functions without any direct mechanism to recover the related costs through subsequent sales. The additional benefit (beyond sales revenue) provided to the Program's client agencies and GR - in the form of cost avoidance in not procuring moving services or storage space, and cost avoidance realized from zero-dollar transfers of property from the Surplus Store - is estimated at over $3.2 million in FY24 alone.

Program revenue must cover expenses related to a variety of legislatively mandated responsibilities, including (1) compliance monitoring of 113 state agencies statewide; (2) oversight of advertisement and transfer of assets to state agencies, political subdivisions, and assistance organizations; (3) performing property pick-ups and providing storage for state agency property; (4) providing no-cost transfers of property to state agencies from the Austin store; (5) operating store in Austin to allow for public sales of property; and (6) conducting online auctions of property located throughout the state. Highlighted below are specific examples of cost avoidance to State agencies.

- Centralized Surplus Agency for the State:
  - The Program supported 88 unique agencies in FY24.
  - Centralization allowed the Program to oversee and monitor the disposal of approximately 79,300 assets utilizing less than 3 FTEs in FY24. This result would be unachievable if this function were decentralized.
- Property Removal, Receiving, and Storage:

- The Program also completed 906 surplus disposal work orders in the Austin area in FY24. The Program provides agency pick-up services, thereby saving the client-agency time and money by removing the need to hire movers. Estimated cost avoidance for FY24 is $546,789.12.
- The Program also provides a centralized storage facility for surplus and salvage property waiting to be sold, thereby saving state agencies storage costs. The estimated cost avoidance for FY24 is $950,443.00

- Transfers of Property from Austin Store:
  - The Program transferred 4,188 items to participating state agencies during FY24. The sales value of the items transferred was $63,801.20.
  - Transferred items include office furniture (i.e., chairs, desks, file cabinets), electronics, and other office equipment and supplies. Nearly all these items are transferred to the receiving agency at no cost, allowing that agency to avoid the cost of new replacement property at market value.
  - The transfer process is efficient and immediate, allowing state agencies to acquire necessary items with minimal paperwork.
  - The estimated cost avoidance in FY24 of acquiring these items directly from SSP instead of using traditional procurement methods is $1,785,069.20.

## PART 3: DIRECT AND INDIRECT OPERATIONAL COSTS

Direct expenses include costs such as salaries, fuel, telephone charges, equipment, and uniforms. Indirect expenses are costs for support services provided by TFC staff in other programs such as Fiscal, Human Resources, Legal, Procurement, Internal Audit, and Information Technology.

| Expenses | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Direct | $593,959 | $738,506 | $1,403,129 | $1,088,459 | $998,020 |
| Indirect | $240,854 | $240,854 | $251,036 | $240,854 | $240,854 |
| Fringe Benefits | $153,242 | $170,479 | $226,423 | $235,482 | $209,230 |
| **Total Expenses** | **$988,055** | **$1,149,839** | **$1,880,588** | **$1,564,795** | **$1,448,104** |

## PART 4: PERCENT ESTIMATED INVENTORY VALUE BY METHOD OF SALE

Inventory value is defined as the estimated value assigned to an item upon receipt by the Program. The percentage of the estimated value of surplus property recovered through the disposal can range anywhere from 0 to 100% because of the supply and demand of the property. Used office furniture is usually in high supply and low demand. For example, many agencies are either cutting down paper usage or upgrading filing cabinets. Therefore, the Program is in ample supply of older, metal filing cabinets sold for low amounts because of age and number.

Program Management believes that this request intends to compare the rate of return achieved by sales method, i.e., direct sale or auction. Anomalies are prevalent with the process, which prevents an accurate accounting of the same. For example:

1. Auction items are typically assigned a reserve price below market value or no reserve to encourage bidders. Therefore, the percentage of the sales price or estimated value would not be realistic because if the item sells for any amount above zero or the “non-typical” sales price, the percent would be positive, giving a false indicator of success.
2. The direct sales method includes transfers to other agencies for no cost for SSP inventory items from a state agency. In FY24, the Program transferred 4,188 items to other state agencies. A note of interest is that the more agencies that take advantage of this opportunity, the less revenue the Program will be able to generate, directly and negatively impacting the ability to recover Program costs.
3. The Program offers discount prices for vehicles sold to cities, counties, schools, and police departments.
4. Due to space limitations in the warehouse and the amount of stock of a particular inventory category, the Program conducts periodic sales.
5. Damage to an item after a price is assigned could lead to further price reductions or disposal as salvage.

## PART 5: TIMELINESS OF DISPOSAL OF SURPLUS PROPERTY BY METHOD OF SALE

Timeliness is defined as the time, in days, between receipt of the property by the Program and final disposition of the property through sale, salvage, donation, or other means of disposal. The Program applies various sales techniques and uses multiple disposal methods to reach a larger market. Due to space constraints, the SSP Program aims to dispose of the property as quickly as possible while seeking disposal in the State’s best interest. Salvage property is usually disposed of upon receipt and only after approval from the Director.

Auction items sold through the internet broker are sold on average within 15 – 30 days from when the property is listed and advertised. All auctions are posted for a minimum of 10 days on the internet as required by statute.

## PART 6: RISK ASSESSMENT PROCESS

Efforts continue to educate state agencies, other political subdivisions, and the public about the State Surplus Property Program.

- Meetings continue to be conducted - as needed, with other state agency personnel to answer questions and discuss their surplus property needs.
- The staff has presented information at fifteen (15) virtual or in-person events to groups such as the Texas Association of Counties Legislative Conference, Texas Municipal League, U.S. Small Business Administration, Texas Association of School Business Officials and Texas Emergency Management Conference.
- The Program posts signage in the Capitol Complex area parking garages.
- Banners are displayed during tailgate events for University of Texas sports.
- Surplus staff sent out fifteen (17) email broadcasts to state surplus customers or state agency property managers to inform them of program updates and available property.
- The Program advertised the storefront to the public in recurring issues of a local news publication.
- The Program issued over 11,500 postcards to addresses in the local area, advertising the storefront and open job postings.
- The Program uses our web page, Facebook, Instagram, and Google Business listing to provide sales notices and update the information to agency property managers and the public.

Historically, efforts have focused on the re-use of property by State agencies, becoming more of a clearinghouse where agencies come to get the property at no cost. As previously noted, the more agencies take advantage of this cost-saving opportunity, the less property is sold, decreasing the revenue the Program can generate and impacting the ability to recover costs associated with the services provided by the Program. Additionally, while not required to use the State Surplus Program for disposal of property, charitable institutions regularly receive office furniture and supplies from our locations. Agencies for Higher Education are also not required to utilize the State Surplus Property Program for disposal of property; however, some acquire property through the Program.