

Department of Transportation:

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



December 2000
2000-127

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December 14, 2000

2000-127

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the Bureau of State Audits presents its audit report concerning the Department of Transportation's (department) State Route 710 historic properties rehabilitation project.

This report concludes that the department did not use a strategic approach to ensure it would complete the project within the authorized funding. As a result, 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. Further, although it implemented certain cost-reduction measures, the department cannot demonstrate that it used the most cost-effective methods when performing work and that it exercised the discretion allowed by federal guidelines. Finally, the department relied on an undocumented process to ensure the work performed complied with applicable codes, and thus it has limited assurance that all relevant code requirements were considered and applied properly.

Respectfully submitted,

ELAINE M. HOWLE
State Auditor

CONTENTS

<i>Summary</i>	1
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<i>Introduction</i>	5
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Chapter 1

The Department Did Not Adequately Plan for the Project and Cannot Demonstrate That It Used the Most Cost-Effective Approach	11
---	----

Recommendations	37
-----------------	----

Chapter 2

The Department Relied on General Services' Process but Did Not Require Documentation to Ensure the Project Complied With Applicable Codes	39
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Recommendations	45
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Response to the Audit

Business, Transportation and Housing Agency, Department of Transportation	47
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SUMMARY

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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RESULTS IN BRIEF

For decades, the Department of Transportation (department) has proposed the State Route 710 extension to ease the traffic flow in Alhambra, Pasadena, South Pasadena, and a portion of Los Angeles. In anticipation of receiving approval for the extension project, the department acquired hundreds of properties, many of which were considered historic, that it assumed responsibility for maintaining. The department allowed these historic properties to deteriorate and did not focus on rehabilitating them until after local communities raised concerns in the mid-1990s. Once it began its efforts, the department did not use a strategic approach to ensure that it could rehabilitate and preserve the properties within the state funding that was authorized. Instead, it used a piecemeal approach and has spent nearly all of its funding to rehabilitate less than half of the properties.

From the beginning, the department's actions undermined the success of the project. After determining that it would need more than the initial \$3.2 million in funding that it began receiving in fiscal year 1994-95, the department requested \$16 million from the California Transportation Commission (CTC) in 1996 to complete rehabilitation of 81 historic properties. However, the estimates the department used to support its 1996 request were hastily prepared and did not adequately consider the interior condition of these properties.

Further, after the CTC approved the \$16 million funding request, the department did not take steps necessary to ensure that the project expenses stayed within that amount. Rather than assessing the needs of the entire project and allocating its finite resources among the properties, the department focused its efforts property by property until funds were nearly depleted. Despite mounting evidence that current resources would not be adequate to meet its goals, the department did not sufficiently explore other options or notify the CTC until late in the project that it would not be able to complete the project with available funding.

Since requesting the \$16 million in 1996, the department has identified additional historic properties along the State Route 710 corridor. As of October 2000, the department has rehabilitated only 39 of the 92 properties it currently has identified as historic and has nearly exhausted the funding it received to complete the entire project. In response to the department's March 2000 request for \$22 million in additional funding, the CTC asked the department to develop alternatives for minimizing costs. The department identified two options. These options, both of which propose to mothball the properties, involve maintaining some to all of its properties as vacant properties. However, mothballing is not intended to be a permanent solution, and we noted specific concerns regarding the department's proposed options that must be addressed. Additionally, although it plans to do so, the department has not yet sent these mothballing proposals to the Office of Historic Preservation (OHP) for review.

Although it implemented certain cost-reduction measures, the department cannot demonstrate that it used the most cost-effective methods when performing work. This is of particular concern because of the significant amounts it spent rehabilitating the properties—more than \$400,000 per property for those completed. The department cannot show that it fully explored its options and exercised discretion allowed by federal guidelines for the treatment of historic properties. In particular, the department did not use an approach that entails using condition assessments to identify and prioritize the features that define the historical character of each property and to focus the planned work primarily on those features that are most important in contributing to the overall significance of the property. Additionally, it could not demonstrate that it considered the technical and economic feasibility of various repair alternatives when performing work. Consequently, the department lacks assurance that all of the work performed was as cost-effective as possible.

Finally, the department relied on its contractor, the Department of General Services (General Services), to ensure that the work on this project complied with applicable codes. General Services appears to have a process designed to do so. Yet the department did not require that the process used be verifiable: It did not require General Services to document the key judgments it made throughout the process, such as identifying the specific code

requirements applicable to the project. Thus, the department has limited assurance that those who worked on the project considered and applied properly all relevant codes.

RECOMMENDATIONS

To ensure that 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 ensure that it takes advantage of the flexibility allowed by federal guidelines. Further, it should consider the technical and economic feasibility of planned work when determining whether it has considered the least costly yet acceptable alternatives.

If it pursues its mothballing proposals, the department should ensure that they comply with federal guidelines, and it should obtain approval from the OHP as to their propriety.

Further, 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. The department should notify funding authorities promptly when it becomes aware that existing funding will not be sufficient to meet project goals.

Finally, to ensure that future work on this and other projects complies with applicable codes, the department should develop a process to identify and evaluate all code requirements related to the project. The department should also ensure that it can demonstrate that the applicable code requirements have been considered and applied properly.

AGENCY COMMENTS

The department agrees with the report findings and plans to implement the recommendations. The Business, Transportation and Housing Agency believes that the report will be very helpful in improving the department's current and future rehabilitation of historic properties. ■

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INTRODUCTION

BACKGROUND

The Department of Transportation (department) is responsible for constructing, operating, administering, and maintaining the State's comprehensive transportation system. The department has 12 districts, all of which maintain right-of-way offices. These offices are responsible for acquiring and appraising the land needed for constructing transportation facilities, relocating residents and businesses affected by proposed freeway construction, managing and disposing of property under the department's control, and clearing land before construction begins.

In the initial phases of a proposed freeway project, the department conducts detailed studies and submits a recommendation to the California Transportation Commission (CTC) on whether to approve the proposed project. Once the CTC authorizes the department to proceed and adopts a route, the department enters into a freeway agreement with the appropriate officials and begins acquiring properties located in the path of the proposed freeway. Depending on the location of the proposed freeway and its potential social, economic, and environmental impacts, the appropriate right-of-way office generally begins acquiring properties 18 to 36 months before the planned construction date. However, if the proposed freeway will worsen the personal circumstances of a property owner in the right-of-way, or if substantial building activity or appreciation of land value is predicted for the future, the department can acquire the property farther in advance. Because of delays in project approval or construction start-up, the department sometimes cannot avoid acquiring more property than it needs for a particular transportation project or holding properties for long periods of time.

For decades, the department has proposed the State Route 710 extension project. When built, it will close an approximate six-mile gap in the freeway just north of State Route 10 in Los Angeles to State Route 210 in Pasadena and is expected to ease the traffic flow in Alhambra, Pasadena, South Pasadena, and a portion of Los Angeles. In 1953, the California Highway

Commission, the predecessor to the CTC, adopted a location for the extension project. Since that time, the proposed route has been modified, and the department has acquired hundreds of properties for the right-of-way and become responsible for their long-term management.

The State Route 710 extension project has experienced delays for various reasons. For example, the department spent years working on environmental studies documenting the adverse impacts of the freeway on the surrounding communities. Eventually, the Federal Highway Administration approved a record of decision in 1998, setting the final route for the extension project. However, work on the freeway cannot begin until the department meets a number of provisions included in the record of decision. For instance, the department must establish community design advisory groups within each of the impacted communities to consider their specific mitigation needs, determine whether certain proposed work is feasible, develop an acceptable financial plan to ensure the entire project will be financially supported, and create an acceptable relocation plan. The department cannot estimate with certainty when construction on the extension project will begin.

THE STATE ROUTE 710 HISTORIC PROPERTIES REHABILITATION PROJECT

Of the hundreds of properties the department currently owns along the proposed State Route 710 corridor, 92 are considered historic because they are either on or eligible to be on the National Register of Historic Places. The California Public Resources Code, Section 5024(a), requires the department to preserve and maintain, when prudent and feasible, the historic properties it owns. Any work done to these properties is to comply with the construction standards set forth in the California Building Code and the State Historical Building Code, which contains requirements unique to historic buildings. Additionally, the department follows federal standards for the treatment of historic properties established by the Secretary of the U.S. Department of the Interior (Secretary of the Interior) when performing work on these properties. Local codes are relevant to a limited extent. According to the California Streets and Highways Code, Section 104.6, the department, when acquiring properties for future highway needs, must conform to the local codes that were in effect at the time the properties were acquired. Because

the department acquired many of its properties in the 1960s and 1970s, certain current local codes may not be relevant to this project.

In the past, the department had allowed many of its historic properties acquired for the State Route 710 extension project to deteriorate. Problems included plaster falling off the walls and roofs leaking, as well as foundations and plumbing needing repair. The department stated that during the mid-1990s the community, local officials, and preservation groups pressured it to keep the properties occupied and well maintained. As a result of this pressure, as well as the California Public Resources Code requirement, the department applied for and received \$3.2 million in funds from the CTC over two years beginning in fiscal year 1994-95 to perform rehabilitation work on the properties.

After receiving this funding, the department had estimates prepared for “full rehabilitation” of some of the properties.¹ However, the department became concerned about the costs of full rehabilitation and subsequently revised its plan in June 1996. It decided to continue full rehabilitation for only 4 of the properties and downscale the extent of rehabilitation on the 81 historic properties remaining at that time. In November 1996, the department requested an additional \$16 million from the CTC to complete rehabilitating the 81 properties. The CTC granted the request in December 1996. Ultimately, the department received \$16.2 million in approved funding for this part of the rehabilitation project.

After requesting the additional \$16 million in 1996, the department identified more properties acquired for the State Route 710 extension project that it considered historic. As of October 2000, the department reports that it owns 92 historic properties and has spent \$19 million. As shown in Table 1, the department has spent \$16.4 million to complete work on only 39 properties, less than half of its total holdings. Additionally, it has spent \$2.6 million on 46 of the remaining 53 properties, to cover preliminary work such as architectural and engineering design costs, as well as certain miscellaneous costs.

¹ “Full rehabilitation” is not a term addressed in the professional literature we reviewed. However, the Department of General Services, the agency that managed the work on the project, describes the work performed on the four fully rehabilitated properties as “more restoration or museum-quality” rehabilitation.

TABLE 1**Summary of Expenditures for the Project
as of October 2000**

	Total Expenditures (In Millions)
Completed Properties	
4 fully rehabilitated properties	\$2.3
35 other properties	14.1
Other Costs	
Preliminary work, primarily architectural and engineering design costs, for 46 of the remaining 53 properties*	1.7
Miscellaneous, including start-up costs	0.9
Total	\$19.0

Source: Project status report prepared by the Department of General Services.

* Included in the 53 remaining properties are 8 that the department declared to be excess. The costs shown in the table include some repair costs for 4 of the 8 excess properties.

The Department of General Services (General Services) plays a significant role in the department's historic properties rehabilitation project. After the department decided to revise the scope of the project, it entered into a memorandum of understanding in July 1996 with General Services. According to the memorandum of understanding, General Services was to provide architectural and engineering services and manage the work performed on the properties, essentially serving as project manager and general contractor for the project. General Services hires laborers to perform the work on the properties, collects bids, enters into agreements with licensed contractors, and purchases materials. In consultation with the department, General Services identifies the work that is to be done on the properties and prepares detailed work plans and cost estimates. The department's role is to oversee the work of General Services.

OUR 1996 AUDIT REPORT

In November 1996, we issued an audit report titled *Department of Transportation: Further Improvements Can Be Made in the Management of Properties Along the State Route 710 Right-of-Way*. The department's historic properties rehabilitation project was in its

initial phase at that time. Our report questioned the department's reasoning in planning to spend more than \$2 million to rehabilitate four historic properties, and commented that spending such sums to rehabilitate historic properties that would ultimately be sold seemed imprudent. The report further stated that the department has some flexibility as to the extent to which it must preserve and maintain historic properties. We recommended that the department reassess its interpretation of the law requiring it to preserve and maintain historical resources and also reassess the level of repair work it planned to perform on its historic properties. In its response to our report, the Business, Transportation and Housing Agency, the agency that oversees the department, stated that the circumstances regarding the State Route 710 project precluded the department from exercising latitude in its interpretation of laws related to the maintenance and rehabilitation of the properties if it was to ensure federal participation in the freeway project. However, this comment is inconsistent with the department's decision in June 1996 to downscale the rehabilitation efforts on the remaining properties. We discuss the department's rehabilitation efforts as well as the flexibility it had when performing work on the project in Chapter 1.

SCOPE AND METHODOLOGY

The Joint Legislative Audit Committee requested that the Bureau of State Audits examine the expenditure of state funds by the department to rehabilitate historic properties along the proposed State Route 710 corridor. As part of our audit, we were to determine, to the extent possible, whether the expenditures were cost-effective and whether future work could be done in a more cost-effective manner. Additionally, we were asked to determine whether any of the historic properties could be sold. Finally, our audit was to assess the department's process for ensuring that the work performed complies with applicable requirements, such as building codes.

To obtain an understanding of the department's historic properties rehabilitation project, we inquired about the department's plan for performing work on the properties and assessed whether the plan considered all relevant information and was prudent. As part of this review, we compared cost estimates prepared by the department to those prepared by General Services, and we spoke to key officials at both agencies to understand the approach used in preparing the estimates. To understand the department's

approach to completing the project, we reviewed transcripts of CTC meetings at which the project was discussed, as well as other documentation. Finally, we toured a few of the properties to observe some of the completed work.

To determine whether the department had a process to ensure that its expenditures on the project were cost-effective, we first identified the extent to which the department had discretion regarding the extent of work performed. To do this, we reviewed state and federal guidance, including *The Secretary of the Interior's Standards for the Treatment of Historic Properties*. We also spoke with an official at the State's Office of Historic Preservation to understand what flexibility the department might have in carrying out this project. We then assessed the degree to which the department exercised discretion. As part of our assessment, we interviewed key officials at both the department and General Services to understand how they attempted to ensure that expenditures were cost-effective, and we reviewed related documentation of project costs.

We also considered options that the department has proposed for reducing project costs in the future. Specifically, we reviewed two options that the department presented to the CTC in June 2000. Additionally, we evaluated the extent to which the department could reduce costs through other means.

To determine what historic properties could be sold, we obtained an understanding of the department's process for declaring properties to be excess, or no longer needed for the extension project and therefore available for sale. We then reviewed those properties that the department considers to be excess or potentially excess and considered the reasons that the department gave for not being able to sell the properties at this time.

Finally, we assessed the department's process for ensuring that the work performed on the project complies with applicable requirements, such as building codes. To do this, we considered which federal, state, and local requirements apply to the project. We then spoke with officials at the department and General Services to determine which requirements they believe apply, and we evaluated their specific processes for ensuring compliance. We also spoke to tenants of some of the department's historic properties and reviewed reports prepared by local inspectors on certain properties to identify whether any concerns exist that indicate that the department did not comply with the applicable requirements. ■

CHAPTER 1

The Department Did Not Adequately Plan for the Project and Cannot Demonstrate That It Used the Most Cost-Effective Approach

CHAPTER SUMMARY

The Department of Transportation (department) did not use a strategic approach to ensure that it would complete its State Route 710 historic properties rehabilitation project with available funding. The estimates the department used in 1996 to request funding for the project were hastily prepared and did not adequately consider estimates developed by the Department of General Services (General Services), the agency employed to manage and perform work on the project. Further, after funding was approved, the department did not establish a plan to prioritize project goals in light of its funding limitations nor did it take appropriate corrective action later when it was clear that funding was insufficient. Rather than assessing the needs of the project as a whole and allocating its total resources among the properties, the department focused its efforts property by property until funds were nearly depleted.

Although it implemented certain cost-reduction measures, the department cannot demonstrate that it developed and implemented a plan to ensure that it used the most cost-effective approach when performing work. This is of particular concern because of the significant amounts it spent rehabilitating the properties—more than \$400,000 per property for those completed. Yet it cannot show that it fully explored its options and exercised discretion allowed by federal guidelines. In particular, the department did not use an approach that entails identifying and prioritizing the features that define the historical character of each property and focusing its rehabilitation efforts on those features that are most important in contributing to the overall significance of the property.

As of October 2000, the department has nearly exhausted the \$19.4 million in funds it received for the project yet has completed work on less than half of the properties. In March 2000, the department requested an additional \$22 million to complete the

project. It has subsequently proposed two less costly options, but they involve keeping some to all of its properties vacant and employ an approach that is not intended to be a permanent solution. However, the department could save costs in the future in another way. It could develop a systematic approach that ensures it focuses future work on those historic features that are most important in contributing to the properties' overall significance.

THE DEPARTMENT DID NOT ADOPT A STRATEGIC APPROACH TO ENSURE THAT IT WOULD COMPLETE THE PROJECT WITHIN AUTHORIZED FUNDING

The department did not manage the project as though \$16 million was all the funding it would have to complete the 81 properties.

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 more years before it informed the CTC of its financial problems.

The Department's Request for Project Funding Was Based on Unrealistic Estimates Derived From cursory Information

The department's 1996 project estimates of \$16 million were neither well developed nor realistic considering the project goals, which included making habitable the 81 properties then identified as historic. Rather than developing estimates derived from sound inspection principles and relevant information, the department developed its estimates based on hasty inspections that did not adequately consider the interior condition of these properties. Further, the department did not estimate costs for items such as architectural and engineering plans or asbestos and lead paint removal.

In 1994, the department requested from the CTC \$3.2 million in funds to repair and rehabilitate its historic properties along State Route 710, an amount it received over two fiscal years beginning in 1994-95. With the \$3.2 million, the department planned to

fully rehabilitate four of its historic properties and perform preliminary rehabilitation work on some other properties. By 1996, the department recognized that it was going to need additional funds to complete the rehabilitation of its remaining 81 historic properties and that it needed to downscale its efforts from the first four.

General Services developed conceptual estimates for 38 of the department's historic properties in anticipation of the department's request for funds from the CTC. General Services developed these estimates, which were based on inspections of both the interiors and exteriors of the properties, to give the department an indication of the costs to perform rehabilitation work that would meet the "minimum acceptable levels of life safety, lease occupancy, and historic preservation." The estimates showed that rehabilitating these 38 properties could cost more than \$20 million. Based on these estimates, the department projected that the rehabilitation of 81 historic properties along the route could exceed \$40 million.

Although initial estimates prepared by General Services indicated that the costs to rehabilitate 81 properties could exceed \$40 million, the department requested only \$16 million in funding.

The department official in charge of the project (department's project manager) told us that these large cost estimates prompted discussions of possible alternatives within the department as well as with the Business, Transportation and Housing Agency, which oversees the department. The department's project manager also stated that the department did not believe the CTC would approve the amounts indicated in the General Services estimates. As a result, the department's project manager stated that the department reduced the original scope of work, as well as the total cost estimate, to \$16 million for the remaining 81 properties. Specifically, according to a June 1996 memorandum, the department decided to proceed with rehabilitation by performing roofing, painting, electrical, plumbing, and work to ensure safety as well as to preserve the houses from further damage. However, the department's "downscaled" approach does not appear to be different than the approach for which General Services estimated, nor is there any indication that the department used General Services' estimates as a starting point from which it reduced the scope and costs.

In fact, the department could not provide any detailed support for the estimates it prepared for the 81 properties. However, the department's explanations for how it prepared its \$16 million total estimate make it clear that it provided estimates that were unrealistic in light of the department's commitment to making the properties habitable. For example, according to an internal

department memorandum, department staff prepared its estimates within a very short period based on hasty inspections, and the estimates used only lump sum costs with respect to broad categories of work. Additionally, the department inspected only the exterior of the properties. Department officials also acknowledged that the estimates did not take into account certain items such as architectural and engineering plans or removal of asbestos and lead paint. Further, although the department told us it developed its estimates for about half the properties from General Services' estimates, which were based on interior as well as exterior inspections, it could not show that it considered General Services' estimates nor that it performed its own interior inspections. This raises the question of how the department intended to realistically estimate the costs to make these properties habitable when it did not even assess the condition of the interiors. Finally, although the work described in the department's proposal was to be carried out by General Services, that agency's project manager told us that General Services never gave the department any indication that it could do the work the department was proposing for the \$16 million it requested.

Although the department intended to make the properties habitable, it did not assess the condition of the interiors.

Nevertheless, the department proceeded in November 1996 to present the estimates to the CTC as the entire amount to complete the work on the 81 historic properties it identified as requiring funding. According to the department's project manager, the CTC reluctantly approved the \$16 million in December 1996 and made it clear to the department that it should not make any further funding requests. The department received this funding in allotments over the next few years. Ultimately, the department received \$16.2 million in approved funding for this part of the project.

The Department Did Not Develop a Plan to Ensure Project Costs Stayed Within Funding Constraints

After it received approval for funding from the CTC, the department lacked both focus and direction in its approach to the historic properties rehabilitation project. Rather than identifying and analyzing project objectives and project constraints, the department approached the project in a reactive manner. It did not approach the project strategically by assessing the needs of each property and the project as a whole and then prioritizing the allocation of its finite resources among the properties.

The Secretary of the U.S. Department of the Interior's (Secretary of the Interior) guidelines for rehabilitating historic properties and Office of Historic Preservation (OHP) staff recommend an approach for assessing needs in a project such as this. This approach, sometimes referred to as a condition assessment, entails identifying the character-defining features of each historic property. In addition, according to an OHP official, when

performing these condition assessments, one should prioritize the character-defining features according to their individual importance to the property's overall historical significance, particularly when funding is limited. Although the department determined a scope of work for each property based on a walk-through inspection, it did not perform condition assessments that focused on identifying and prioritizing character-defining features to ensure it stayed within its rehabilitation budget for all 81 properties. Such assessments would have helped the department decide what the priorities were for each property and could have served as the basis for detailed cost estimates.

The department had several goals for this project. Among them was making the historic properties habitable and complying with the State Historical Building Code. A major constraint, of course, was the \$16 million budget to complete the rehabilitation of

81 historic properties. Although the department established these goals and was well aware of its budget, it did not approach the project systematically and prioritize project goals to stay within its funding constraints. Rather, the department used a piecemeal approach. According to the department's project manager, the department gave first consideration to rehabilitating vacant houses and then placed the remaining properties into 12 groups based on condition, location, and size of the property. In January 1998, the department began approving detailed estimates from General Services that were based on the scope of work to which the department had agreed.

However, the department acknowledged that it did not emphasize to General Services that it needed to ensure that cost estimates for the project not exceed the \$16 million budget. Rather, the department had General Services develop estimates for the properties on a group-by-group basis from January 1998 to January 1999. The department reviewed and approved the estimates as it received them without evaluating the impact that

Department Goals for the Project

- Make all historic properties habitable, decent, safe, and sanitary rather than have boarded-up properties that blight the neighborhood.
- Prevent further deterioration of historic features.
- Rehabilitate and preserve historic properties to meet neighborhood community standards.
- Comply with applicable requirements, such as the State Historical Building Codes.
- Use resources efficiently and be cost-effective.

each estimate would have on the overall cost of the project. Without systematically evaluating the detailed estimates and other relevant information for the entire project before approving them, the department essentially ensured that the project would not be successfully completed within the authorized funding.

The department had evidence from General Services' 1996 conceptual estimates that costs could be significantly more than it had estimated. By analyzing the differences between its estimates and those of General Services, the department could have determined whether the differences were a result of General Services' estimating costs for items that were unnecessary or of the department's own failure to consider items required by one of its goals. If the differences were caused by omissions in the department's estimates, it could have reevaluated its goals. For example, as discussed later, the department's goal of making the properties habitable significantly added to the cost of the project but was not required by law or federal guidelines. Had the department reassessed its goals based on its funding constraints, it would have been better able to make necessary changes to avoid overspending its funds.

The Department Did Not Take Corrective Action When It Was Clear That Funding Would Be Insufficient

In addition to the department having evidence in 1996 that costs could be significantly higher than it estimated, it had a chance to note that funding was insufficient to complete the project as it planned. Specifically, once detailed estimates for some of the properties were prepared in early 1998, the department had clear evidence that it would likely not complete the project within budget. Yet it continued the project without sufficiently exploring alternatives or raising concerns to the CTC.

Considering detailed estimates for 13 properties, total costs for all 81 properties were projected to exceed \$33 million, more than double the \$16 million of funding available.

The department approved General Services' detailed estimates for a group of 7 properties in January 1998 at an average cost of approximately \$309,000 per property. Applying that average to 81 properties would suggest a total estimate of about \$25 million, approximately \$9 million more than the funds available. General Services then prepared estimates for a second group of 6 properties, 5 in February 1998 and 1 in May 1998, giving the department even stronger evidence that project costs would likely exceed authorized funding. By considering estimates from the first and second groups, the department could have projected total costs for rehabilitating 81 properties to exceed

\$33 million, or more than \$410,000 per property. Nevertheless, the department still did not inform the CTC or sufficiently explore other alternatives.

Evidence that it could not complete the project with available funding continued to accumulate, yet the department proceeded as though it did not have a \$16 million budget for the 81 properties. The department told us that costs were sometimes higher than expected and that the discovery of unforeseen repairs, such as damaged foundations or severe dry rot, often required changes to the estimates (change orders). We recognize that unforeseen repairs can be common in construction projects, especially in significantly deteriorated properties. However, the discovery of these unplanned costs should have been an even more compelling reason for the department to raise concerns and reevaluate its ability to complete the project within its existing budget. For example, the estimates for the first group of 7 properties had change orders that increased the estimated average cost per property from \$309,000 to more than \$378,000.

The need to reevaluate costs was even more critical in light of the department's understanding of the CTC's position regarding project funding. The department's project manager told us that in approving the \$16 million for the rehabilitation project in December 1996, the CTC made it clear that it would not authorize additional funds for the project. Therefore, because the department apparently knew early on that the \$16 million would not be enough to rehabilitate the historic properties as planned and could not expect to receive additional funds, an acceptable alternative to ensure that the remaining funds matched the scope of work seems essential.

Although the department believed that additional funding would not be authorized, it did not identify alternatives for the project as a whole but rather continued with work until the money ran out.

However, the department did not identify and evaluate its alternatives for the project as a whole. Instead, as the department's project manager acknowledged, the department decided to continue with the work as planned until the money ran out. Although both General Services and the department made certain efforts to reduce project costs, as we discuss later in the chapter, these efforts were insufficient to ensure that the project stayed within its budget. Additionally, the department could not demonstrate that it considered such alternatives for all the properties in the project. Had it performed this type of analysis for the entire project and still found it could not meet its budget, the department would have had more compelling evidence to present to the CTC when explaining why it would need additional funding.

In September 1999, the department decided to begin preparing a request to the CTC for additional funding to complete the rehabilitation project. The department requested the funding for the same reason it began the project. It believed that state law required it to rehabilitate and maintain historic properties to certain standards. In addition, the department was under a July 1999 injunction filed by various entities including the city of South Pasadena requiring it to maintain in good repair all state-owned properties acquired for the State Route 710 extension project and report to the court on plans and progress in maintaining the properties. The department believed it would be in violation of that injunction if the project did not continue. Therefore, in March 2000, it presented a request to the CTC for additional funding of \$22 million to rehabilitate 51 remaining properties. This funding, if awarded, would bring the total project cost to more than \$41 million.

Thus, more than three years after it obtained approval for funding that it had claimed would be sufficient to complete its rehabilitation project, the department requested additional funding to complete the project. With the request, anticipated total project costs more than doubled what the department had originally estimated. Table 2 summarizes the key events related to the department's obtaining funding as well as events that demonstrate the department had early indications that project funding was insufficient.

At the request of the CTC, the department subsequently proposed alternatives to its March 2000 funding request. We discuss these alternatives later in the chapter. As of October 2000, the department has spent \$19 million to complete rehabilitating less than half the properties.

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 (FHWA) 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

Federal funds will be available in the future for rehabilitation of historic properties as part of the State Route 710 extension project.

TABLE 2**The Department Had Early Indications That Project Funding Was Insufficient**

1994	
December	The CTC approves \$3.2 million for the project.
1996	
June	General Services completes conceptual estimates for 38 properties totaling \$20 million. Based on these estimates, the department projects that the rehabilitation of 81 properties could exceed \$40 million. These large cost estimates prompt discussions within the department as well as with the Business, Transportation and Housing Agency as to possible alternatives.
November	Based on its own estimates, the department requests \$16 million from the CTC to rehabilitate 81 properties. The CTC approves the funding in December.
1998	
January	The department approves detailed estimates from General Services for a group of seven properties at a total cost of \$2.2 million. The average estimated cost per property is approximately \$309,000. Based on these estimates, the projected total cost for the 81 properties totals about \$25 million.
February through May	General Services prepares detailed estimates for a second group of six properties totaling \$3.2 million. Combining estimates from this group with those of the first group, the projected cost for the 81 properties exceeds \$33 million, or more than \$410,000 per property.
1999	
September	The department decides to begin preparing a request to the CTC for additional funding.
2000	
March	The department requests from the CTC an additional \$22 million to rehabilitate 51 properties that are not expected to be completed with existing funding. This funding, if approved, will bring the total project cost to more than \$41 million.

factored these future plans for rehabilitation into the decisions being made for the current rehabilitation project. 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.

When the department presented its \$16 million rehabilitation plan to the CTC in 1996, it informed the CTC that the department would fully rehabilitate all the historic properties once the extension project was complete. The department viewed these rehabilitation efforts as part of its long-range plan to mitigate the effects of the extension project, and this long-range plan was

subsequently incorporated into the record of decision that the FHWA approved in 1998, subject to the completion of certain provisions. However, the department's long-range mitigation plan did not make clear the extent of rehabilitation it intended to perform. The mitigation plan, which was conceptual in nature, included estimated lump sum costs of approximately \$24 million for items such as sound walls, landscaping, and relocation and rehabilitation of the department's historic properties, but it did not discuss the kinds of rehabilitation work the department planned for those properties.

Further, it does not appear as though the department has a clear understanding of what it planned to do as part of this long-range mitigation plan. For example, according to department officials, when the department discussed its long-range plan with the CTC in 1996, it assumed it was required to rehabilitate all of its properties once the extension project was complete. The department continues to believe it has to rehabilitate those historic properties that will be moved and relocated to their original districts as part of its planned mitigation efforts funded through the extension project. However, the department is now no longer certain whether it must rehabilitate the properties that will remain in place during freeway construction as part of the mitigation efforts that it promised to obtain federal funding. Additionally, in a 1996 document, the department indicated that its current rehabilitation project was an interim measure that would focus on "partial rehabilitation," with "full rehabilitation" coming at the completion of the extension project. In contrast, the department now acknowledges that for those properties on which it has completed work, it has performed the amount of rehabilitation it believes is required to comply with federal guidelines. Future rehabilitation efforts for those properties would focus on mitigating the effects of relocating the properties.

The department contends that its current rehabilitation project is independent of its rehabilitation efforts under the long-range mitigation plans. However, we question why those planning the current project would not have considered it prudent to have a clear understanding of how any future rehabilitation efforts and the existence of federal funding could affect the decisions they were making. For example, because federal funding will be available in the future for rehabilitation work on at least some properties, the department could have considered whether it should minimize the work that it performs with state funds now and maximize the use of federal funds later. Additionally, it seems relevant to consider how the department's future plans of

The department spent \$7.7 million to rehabilitate 17 properties that will ultimately be cut apart, moved, and put on new foundations.

relocating certain properties might affect the work performed as part of the current project. In fact, the department has spent nearly \$7.7 million to rehabilitate 17 historic properties that will be moved during freeway construction and relocated. The department is going to have to cut the buildings apart and put them back together on new foundations. We believe the department should have considered this and determined whether it needed to minimize detailed work that could ultimately be damaged by the plans to move these buildings.

We are also concerned that the department has not always clearly disclosed to the CTC that its current rehabilitation project is only an interim measure and that further rehabilitation will be required once freeway construction is complete. Specifically, when discussing the current rehabilitation project, the department has not mentioned to CTC since 1996 that it is only an interim measure. This is of particular concern because the current CTC members are not the same as in 1996. 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.

THE DEPARTMENT CANNOT DEMONSTRATE THAT IT EXERCISED THE DISCRETION ALLOWED BY FEDERAL GUIDELINES TO ACHIEVE THE MOST COST-EFFECTIVE APPROACH

On average, the department spent more than \$400,000 per property for those it completed.

When work on the project began in February 1998 using the funds approved by the CTC, the department faced several challenges. The historic properties had suffered significant deterioration because the department had not kept them in proper repair over the years. 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. Additionally, although all the historic properties will

ultimately be sold, the department did not consider the expected sales prices of the properties when determining how much to spend on rehabilitation. As a result of these shortcomings, the department lacks assurance that it performed work on the project in the most cost-effective manner.

The Department Had Discretion Regarding the Extent of Work It Must Perform

As we said in our November 1996 audit report, the department has some flexibility regarding the extent of the work it performs on its historic properties because state law does not specify what constitutes preservation and maintenance of historic properties. Federal guidelines also allow flexibility. The Secretary of the Interior has published standards for four recommended treatments of historic properties: preservation, rehabilitation, restoration, and reconstruction. Table 3 summarizes the goals of these treatment methods.

TABLE 3

The Secretary of the Interior’s Recommended Treatment Methods for Historic Properties

Treatment Method	Goal	Assumption
Preservation	Protect and maintain only existing features that define the historical character of the property.	Character-defining features are essentially intact. Protection, maintenance, and repairs are emphasized; replacement is minimized.
Rehabilitation	Protect and maintain only existing features that define the historical character of the property; perform repairs or alterations necessary to bring the property to a state of utility.	Historical character of the property has deteriorated over time, and more repairs and replacement will be required.
Restoration	Make property appear as it did during its “most significant” time in history.	All the property’s character-defining features for a specific time in history will be restored. Features that reflect a different time period will be removed.
Reconstruction	Reconstruct a nonsurviving property, and make it appear as it did at a specific time in history.	All the property’s vanished character-defining features for a specific time in history will be reconstructed.

Source: *The Secretary of the Interior’s Standards for the Treatment of Historic Properties.*

The Secretary of the Interior has also published guidelines for the implementation of these four treatment methods. Under these guidelines, the appropriate treatment is selected for a property only when the following considerations have been addressed:

- **Relative importance in history.** Often, preservation or restoration are appropriate treatments for National Historic Landmarks and other properties individually listed in the National Register of Historic Places, which have exceptional significance in American history. Properties with less historical significance, such as those that contribute to the historical significance of a district but are not eligible to be individually listed in the National Register of Historic Places are frequently rehabilitated for a compatible and contemporary use.
- **Physical condition.** After all interior and exterior architectural features that contribute to the property's historical significance are identified, the existing physical condition of each feature should be assessed to determine its degree of material integrity and the level of repair necessary to preserve it.
- **Proposed use and mandated code requirements.** Whether historic properties are adapted for new uses or not, repairs required for new use adaptation or to comply with applicable codes should minimally disturb the property's historical character. For example, additional construction needed to meet the accessibility requirements of the Americans With Disabilities Act should be designed to minimize loss of character-defining features and visual change to the historic property.

The department could have maintained vacant properties and preserved them without attempting to make them habitable.

The department, in attempting to follow the federal standards and guidelines, had flexibility regarding the extent of the work it undertook. For example, the department could have maintained vacant properties and preserved them without attempting to make them habitable. Although state law requires the department to preserve historic properties when prudent and feasible, making them fit for occupancy is not a requirement. According to the Secretary of the Interior, a fifth treatment referred to as *mothballing* can be used when funds are not available for putting a deteriorating property into usable condition. The Secretary of the Interior describes mothballing as the process of stabilizing a vacated building to prevent its further deterioration by securing the exterior from moisture penetration, exterminating or controlling pests, securing the building against vandalism, providing adequate ventilation, and developing and implementing a

maintenance and monitoring plan for protection. Mothballing can cost significantly less than other treatment options, but as we discuss later in the chapter, it is not intended to be a permanent measure.

Flexibility also existed in other ways. Rehabilitation work focuses on protecting and maintaining existing features that define the historical character of the property. However, the department had discretion when identifying the features that contribute to the property's historical significance. Such decisions can directly impact the extent of work performed because not all existing original features may be considered historically important. For example, according to an OHP official, work related to the rehabilitation of a property that has been classified as historic solely because it is located within a historic district may be focused on its exterior architectural features, unless the property has extraordinary interior features that are masterfully designed.

Not all features that define the historical character of these properties are of equal importance.

Additionally, according to the OHP official, not all of the features that define the historical character of these properties are of equal importance to the overall significance of the properties, and thus, not all features must be repaired or preserved. Therefore, once a feature has been determined to be historically significant, the department could use judgment to prioritize its contribution to the overall historical significance of the entire property when determining whether to repair it or replace it with a new item of similar materials and appearance. Further, according to the Secretary of the Interior's guidelines, such a decision should be based on an assessment of that item's condition to determine whether it could be repaired and should take into consideration whether its repair is technically and economically feasible.

The Department's Rehabilitation Efforts Appear to Have Gone Beyond Those Necessary Under Federal Guidelines

Although the department can point to examples that demonstrate its efforts to cut project costs, the department seems not to have fully understood or exercised the discretion and flexibility allowed by the federal guidelines. As a result, the department may have completed extensive rehabilitation work unnecessarily.

Department staff state that they were cost-conscious when they made decisions related to the project and that they met regularly with General Services staff to identify work that was unnecessary. Additionally, General Services' project manager says that in developing the scope of work for the rehabilitation of historic

properties, architects and engineers from General Services inspected each property and developed detailed estimates by applying a process he referred to as “value engineering.” He stated that this process was designed to minimize the level of work by focusing on critical work while considering other factors such as choice of materials. The department made certain cost-management decisions, such as reducing foundation repairs, by applying this approach. Further, the department told us that in certain instances, it opted for less costly alternatives such as carpeting wood floors or sealing off fireplaces when the cost to restore them was prohibitive.

Although such cost-reduction measures are commendable, we are concerned that the department did not apparently exercise the full amount of discretion allowed by the federal guidelines. The department relied heavily on the former chief of its historical architectural specialty branch (architectural historian) to determine the extent of work necessary to comply with the federal guidelines. Due to staff shortages, the OHP, which ordinarily would have overseen the project, delegated its responsibility to the department’s architectural historian. Thus, the architectural historian had the final word on making decisions regarding work that affected the historical features of the properties. The General Services project manager acknowledged that he had no previous experience with rehabilitating historic properties and that he deferred to the architectural historian’s judgment if there were differences of opinion regarding work performed for historical purposes. Thus, in these areas, decisions as to what was cost-effective were secondary to the architectural historian’s judgment as to what was necessary.

Decisions as to what was cost-effective were secondary to the architectural historian’s judgment as to what was necessary.

As we discussed previously, the department had discretion in identifying the features that contribute to the historical significance of the properties under the Secretary of the Interior’s guidelines. The department, through its architectural historian, made decisions regarding the features that contributed to the properties’ historical significance that appear to have caused work beyond that necessary under the guidelines. For example, according to an OHP official, when a property has been classified as historic because it is located within a historic district, rehabilitation efforts may be focused on the exterior architectural features. He further stated that interior features of these properties generally do not make “indispensable contributions” to the historical character of the district, unless they are extraordinary features that are masterfully designed and executed, such as elaborate fireplaces and staircases. Therefore,

For many of its properties, the department apparently could have focused its rehabilitation efforts on the exteriors and any extraordinary interior features.

interior features should not be considered historically important simply because they are original to the property. The majority of the department's 92 properties were classified as historic because they contribute to the historical character of the district within which they are located. In fact, only 3 of the department's current holdings of historic properties are individually eligible for inclusion in the National Register of Historic Places. Therefore, for many of the properties, the department apparently could have focused its rehabilitation efforts on the exteriors and any extraordinary interior features.

Instead, the department sometimes extended its rehabilitation efforts to interior features that appear to be not only ordinary, such as kitchen cabinets, interior door latches and hinges, and bathroom sinks, but also are located in less visible areas that the Secretary of the Interior's guidelines describe as secondary spaces. According to the guidelines, secondary spaces such as kitchens, bathrooms, utility rooms, and secondary hallways are usually more functional than decorative, and extensive changes can often be made in these areas without having a detrimental effect on the overall historical character of the property. When we spoke to the architectural historian about his approach to defining what was historically significant for this project, it seemed apparent that he interpreted the flexibility allowed by the guidelines differently than the OHP official. Specifically, the architectural historian told us that in his professional opinion, almost all original interior and exterior features contribute to the "historic fabric" of a property and his decisions regarding work to be performed were based on such understanding.

Further, the OHP official points out that not all of the features that define the historical character of these properties are of equal importance and that prioritizing the importance of these features when determining which should be retained and how they should be treated is especially critical when funding is limited. In fact, the OHP does not require the repair or preservation of every historically significant feature in a property, particularly when the existence of severely deteriorated interior features suggest that it is not feasible to do so. However, despite the department having limited funding, it does not appear to have differentiated between the features it considered to be historically significant and did not prioritize its resources accordingly.

Evidence also suggests that the department was not prudent when making certain project decisions because it did not consider all repair alternatives when making those decisions.

The Secretary of the Interior's standards state that they are to be applied to rehabilitation projects in a reasonable manner, taking into consideration technical and economic feasibility of each project. The guidelines that implement the standards further recommend the preservation or repair of existing historic materials, but they also make provisions for replacing severely deteriorated historic features with compatible substitute materials when repair of existing materials is not technically or economically feasible. Although the department claims that it adhered to these standards and guidelines, evidence suggests that it did not always explore other repair options to determine whether replacing certain features would be more prudent than repairing them. Instead, the department made some rehabilitation decisions without regard to economic feasibility.

The department rebuilt 54 wooden windows for one property at a cost of nearly \$28,000 without considering other alternatives.

For example, the department decided to rebuild 54 wooden windows for one of the properties at a cost of nearly \$28,000 without considering other alternatives such as replacement with new windows of similar materials and appearance, which would be acceptable if rebuilding the windows was determined not to be technically or economically feasible. Because the department did not explore other alternatives, it does not know whether rebuilding the windows was the most economical option.

Although it was the architectural historian's practice to "sign off" on the scope of work and cost estimates for each property, he could not demonstrate through a documented analysis that cost-effective alternatives were considered when he made decisions regarding work to be performed that affected the historical features of the properties. In fact, the department's architectural historian stated that the department never asked him to limit historic preservation efforts to a predetermined amount per property or only to specific features—not even after the department indicated to the CTC that \$16 million would be enough to rehabilitate the 81 historic properties for which it was seeking funding. He further stated that he was not involved in the fiscal aspect of the project and that cost was not the primary factor driving his decisions. Finally, he stated that his signature on a project estimate indicated that the scope of work related to the estimate was "appropriate" to comply with the Secretary of the Interior's standards and guidelines, not that the estimate was the most cost-effective solution.

The department could have demonstrated that it fully considered cost-effective alternatives during its work by preparing condition assessments, focusing rehabilitation efforts on the most important

According to an OHP official, a condition assessment should be performed for each property to determine the extent of work necessary and reasonable within the project's budget.

character-defining features of the properties. According to the OHP official we spoke to, a condition assessment should be performed for each property to determine the appropriate treatment approach and the extent of work necessary and reasonable within the project's budget. As part of the condition assessment, features that are determined to contribute to the historical significance of the property should be prioritized by their level of importance to the property's overall historical significance. Further, according to the OHP official, documenting such an assessment is not only reasonable but prudent. Maintaining records that memorialize the preservation of significant features that give a property its historical character is important to ensure future preservation efforts.

Nevertheless, the department did not prepare such condition assessments. Without a systematic approach that clearly identifies and prioritizes the character-defining features of each property and assesses their condition, the department cannot ensure that it performed only necessary rehabilitation work. Although the department claims that it adhered to the Secretary of the Interior's standards and guidelines, it did not maintain records to document its decision-making process for identifying features it considered historically relevant or its rationale for determining what work needed to be performed on these features. Consequently, it cannot demonstrate that its decisions on the project were as cost-effective as possible.

The Department's Desire to Please the Community Sometimes Influenced Its Decisions

The department's decisions regarding the cost of the project at times were influenced by its desire to satisfy members of the surrounding communities who were concerned about the deterioration that had occurred to the historic properties under the department's ownership. For example, partly because of its commitment to the community to repair its properties to community standards, the department never considered the alternative of maintaining vacant properties and protecting their historical character without ensuring that the properties could be habitable. Ensuring that the properties were fit for occupancy entailed extensive repairs to meet health and safety requirements, which drove up the cost of the project considerably. Not until May 2000, when the CTC inquired about the feasibility of vacating the properties and reducing the level of repairs to address only preservation requirements, did the department consider such a possibility. (We discuss this CTC request later in the chapter.)

In an effort to ease tensions between the department and local communities, the department decided in 1996 to rehabilitate four properties at a cost of approximately \$2 million.

Similarly, the department's 1996 decision to spend approximately \$2 million to fully rehabilitate four properties, was made at least in part to satisfy community demands. Specifically, the department's project manager told us that the department believed it needed to make a good-faith effort to ease tensions between the department and local communities that had resulted in lawsuits and negative publicity. In June 1996, the department decided to use a downscaled approach for the remaining properties when cost estimates exceeded original expectations. However, reasoning that reducing the scope of work on these properties would delay the project approximately two or three months, the department decided to proceed with what it called "full rehabilitation" of the four properties to satisfy the demands of the communities. Thus, it appears that cost-effectiveness was not the department's primary concern when determining the work needed on these four properties.

The Department Did Not Consider Expected Selling Prices When Determining How Much to Spend Performing Work on Each Property

The department also 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.

All the historic properties acquired for the State Route 710 corridor will eventually be sold. Once the department receives final approval for the proposed right-of-way for the extension project, historic properties that are located outside the right-of-way and thus not needed to complete the project will be declared excess and sold. However, the properties located within the right-of-way will be permanently or temporarily relocated until the extension project is completed; only then can they be declared excess and sold.

As of October 2000, the department has spent \$19 million on its historic properties rehabilitation project. Despite the knowledge that these properties would eventually be sold, the department did not perform a "reasonableness analysis" to compare estimated amounts to be spent against expected market values of the properties. Department officials contend that they did not

conduct such an analysis because the department is obligated by law to maintain its historic properties whether it can realize full market value when it sells them or not. Further, the department believes that because many of these properties are not currently excess, allocating staff time on appraisal reports is not an efficient use of its resources. The department also states that to the extent the properties are excess today, in most cases, the department could not obtain fair market value for these properties because they are subject to the provisions of the California Government Code, sections 54235 through 54238. These sections require the department to sell its properties at affordable prices to current tenants that meet low-to-moderate income requirements and who also meet other requirements set forth in law.

We recognize that the department has a responsibility to maintain the properties until they are sold. However, as we discussed previously, the department has discretion regarding the extent of work performed, and it also has an obligation to maintain such properties in the most cost-effective way possible. Thus, it seems prudent to consider how much a property will be sold for when planning the project or making decisions regarding the extent of work to perform. The possibility of having to sell these properties at less than fair market value makes the need for this consideration even more important.

Some of these historic properties could be sold sooner than others. The department has declared 8 of the 92 historic properties in its current inventory to be excess, or not needed to complete the extension project. The department told us it made offers to sell the properties to tenants and other interested parties after declaring the 8 properties excess in 1995, but for various reasons such as cancellation of the sale by the tenants, the department was unable to sell the properties. As of November 2000, the properties remain unsold although the department stated that it intends to advertise 2 of them in the near future.

Additionally, it identified 14 other properties as potentially excess. According to the department's project manager, these properties have not been declared excess and thus made available for sale because the department believes that it would not be prudent to sell them until it has met all the provisions of the 1998 FHWA record of decision. The department states that the currently proposed right-of-way is not final until the department satisfies provisions in the record of decision. These provisions include developing an acceptable financial plan to ensure that the entire project will be financially supported and creating an

The department declared 8 of the 92 historic properties excess in 1995 but has not sold them as of November 2000.

acceptable relocation plan to address the number and type of project displacements. The department believes that if it sold properties as excess and subsequently was unable to meet all the record of decision's provisions, it could find itself in the position of having to buy back these properties at a higher cost if a shift in the current proposed route were necessary. The department has spent nearly \$2.7 million performing rehabilitation work on these 14 potentially excess properties and \$124,000 on repairs for 4 of the 8 excess properties.

OPTIONS EXIST TO REDUCE PROJECT COSTS IN THE FUTURE

Recently, the department has proposed to reduce the costs of rehabilitating its historic properties by maintaining some to all of them as vacant properties.

In response to a May 2000 request by the CTC, the department identified two options for reducing project costs. These options involve maintaining some to all of its historic properties as vacant properties, an alternative that the department had not previously considered. These options are less costly than the \$22 million the department requested in March 2000 to complete the rehabilitation project, but they are not suitable as a permanent solution. Further, they are not the only possible way to achieve savings in the future. The department can also save costs by developing a systematic approach to rehabilitating its historic properties that includes developing condition assessments and prioritizing its efforts on those historic features that are most important in contributing to the overall significance of the properties. Conducting such assessments will enable the department to ensure consistency and cost-effectiveness throughout the project.

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.

After the department requested an additional \$22 million to complete the project, the CTC asked whether keeping the properties vacant would reduce costs.

In March 2000, the department informed the CTC that \$22 million in addition to the previously approved \$19.4 million would be necessary to complete the rehabilitation of 51 properties. CTC members expressed concerns about the project and indicated that the department's request could not be approved at that time. In its May 2000 meeting, the CTC asked about the level of work required by law for these properties and whether keeping the properties vacant would reduce costs.

During a June 2000 meeting, the department presented the following two alternatives for mothballing some or all of its historic properties:

- **Option 1.** Vacate all tenants occupying residential historic properties and keep the properties vacant. For the properties that have not been rehabilitated and are to be mothballed (currently 44 as shown in Table 4), conduct preservation work including roof repair or replacement, outside painting, pest control, replacement of broken windows, and exterior structural repairs to stabilize each property. For all properties (including those that the department rehabilitated), install security front doors, side and backyard fencing, security lighting, and alarms; cover front windows with a shatter-resistant material and other windows with painted plywood; and provide for security patrol service. The department has estimated a total cost of \$5.8 million for this option.
- **Option 2.** Vacate tenants only at the occupied historic properties that have not been rehabilitated and are to be mothballed (currently 30 as shown in Table 4), and perform the same preservation work as in Option 1. The department has estimated a total cost of \$5.4 million for this option.

The total estimated costs under both options include \$500,000 for repairs of six of the eight historic properties that the department declared to be excess in 1995. Additionally, the costs included estimates for tenant relocation assistance that totaled \$310,000 for Option 1 and \$168,000 for Option 2.

TABLE 4**Inventory and Status of Historic Properties
as of October 2000**

	Occupied	Vacant	Totals
Rehabilitated	26	13	39
Pending rehabilitation	31*	14	45*
Excess	8		8
Totals	65	27	92

Source: Department of Transportation staff.

* These amounts include 1 nonresidential property, a school, which the department does not intend to include in any mothballing plans. Thus, the planned preservation work in the department's mothballing proposals focus on 44 total properties not yet rehabilitated in Option 1 and 30 occupied properties not yet rehabilitated in Option 2.

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.

It is important to recognize that the mothballing approach is not intended to be a permanent measure. The Secretary of the Interior's mothballing guidelines indicate that a well-implemented plan to mothball properties could protect a vacant property for up to 10 years. This is a concern because at this time the department cannot estimate with certainty when construction will begin on the extension project, and thus, it does not know how long it will own these historic properties. Further, an OHP official told us that although theoretically such an approach meets preservation requirements, mothballing is not in the long-term best interest of historic properties. He further stated that the mothballing approach is generally not a good idea because it puts the properties at risk of vandalism.

Additionally, we noted some specific concerns regarding the department's mothballing proposals. Although the department's proposals consider two of the three highest priorities for a mothballed property—protection from sudden loss and weatherizing to stop moisture penetration—they do not address the third, which is providing adequate ventilation. The mothballing guidelines state that inadequate ventilation could result in unsafe humidity levels, causing the formation of mold, rot, and insect infestation, and damaging historically significant features. After we brought this issue to the department's attention, it contacted General Services staff that had inspected the properties. According to the department, General Services claims that existing features such as basement and attic vents would

provide adequate ventilation. The department also plans to inspect and monitor mothballed properties to ensure their adequate ventilation.

The Secretary of the Interior also recommends documenting the historical significance of a property by preparing a condition assessment of the property as an initial step in the mothballing process. A condition assessment not only provides an accurate overview of the property's current condition but also helps to set priorities for repairs that will stabilize its interior and exterior historic features. However, current department mothballing proposals do not identify and assess the condition of any interior historic features and do not allocate any funds for their preservation. The department contends that these features were identified in the statement of work and rehabilitation work plans that General Services previously developed for each property. Although these documents identify interior repairs deemed necessary for the rehabilitation of these properties, they do not explain whether such repairs are needed either to maintain historically significant features or to comply with applicable codes or both.

When developing its mothballing estimates, the department did not consult with historical experts to ensure that all significant features will be stabilized and maintained.

We are also concerned that in developing its mothballing estimates, the department did not consult with historical experts to ensure that all significant exterior and interior features will be stabilized and maintained. According to the department, the current chief of its historical architectural specialty branch has provided assistance in interpreting the mothballing guidelines and has conducted minimum work to determine the color patterns appropriate for painting the exterior of the houses. However, as of early October 2000, none of the department's historical experts had inspected the properties to identify the interior and exterior character-defining features of these properties to ensure that they are preserved and that the cost of preserving them is included in the estimates it presented to the CTC. The department also stated that the mothballing options have not been reviewed or approved by the OHP although the department acknowledges that, as a result of the July 1999 court injunction, it must obtain the OHP's approval.

The department's project manager cited time constraints as the reason the department did not have the OHP approve the mothballing options before it submitted them to the CTC in June 2000. The department's project manager states that the department had approximately two weeks to develop the two

mothballing options it presented to the CTC, and it intended to obtain OHP's approval at a later date. However, as of November 2000, the department has not done so and is only now developing a report for the OHP's review and comment. The report is intended to demonstrate the effects the department's proposals would have on the historic properties.

The department reduced General Services' estimates for repair work by nearly \$500,000 without having justification for doing so.

Further, we noted discrepancies between estimates for the construction portion of the project prepared by General Services and those prepared by the department. Specifically, General Services estimated a total cost of nearly \$4.9 million for work including repairing or replacing roofs as necessary, removing lead-based paint and materials containing asbestos, repairing and painting exterior surfaces, and repairing and stabilizing foundations for 41 properties.² The department requested less than \$4.4 million for the same type of work. The department reduced the amount that General Services estimated by nearly \$500,000 by decreasing the number of roofs that General Services recommended for repair without having justification for doing so. According to the Secretary of the Interior's mothballing guidelines, roofs are often the most vulnerable elements on a property's exterior and, if not properly maintained, can accelerate damage to the property by trapping moisture. The guidelines further state that moderate repairs to make existing roofs last an additional 10 years should be undertaken as a first priority. After discussing our concerns with the department, it now plans to include the estimated costs for all of the roof repairs or replacements that General Services recommended when it presents its revised funding request to the CTC.

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 to adequately protect its historic properties and prevent their further deterioration and that its two mothballing options are appropriate under the circumstances.

By Modifying Its Approach, the Department Could Save Costs While Allowing the Properties to Be Occupied

Although mothballing is a method of preserving a property, the Secretary of the Interior recommends it only when all other alternatives have been exhausted. Whenever possible, the

² As of November 2000, the department has identified 3 additional historic properties that were not included in its original plan for mothballing. Under Option 1, it now plans to mothball 44 historic properties.

The department is under considerable pressure from the local communities to keep its properties occupied.

property should be put to some use, such as having a caretaker reside in it or using it as a storage facility for nonflammable products. In addition, the department is under considerable external pressure from the local communities to rehabilitate and keep its historic properties occupied. If the department implements a process to develop condition assessments for each property and prioritizes its rehabilitation efforts accordingly, it could potentially keep its properties occupied and perform rehabilitation work for less than the \$22 million it requested in March 2000.

As we discussed previously, a goal of the project was to ensure that the properties met community standards. Some community members have publicly threatened to challenge the department in court if it mothballs its historic properties. Such legal action could result in project delays. Further, in a July 1998 letter to a state senator, the department's former director stated that none of the historic properties would be closed as a result of the rehabilitation project. However, due to unanticipated cost overruns and inaccurate project estimates, the department is now facing the possibility of vacating and boarding up some to all of its historic properties if the CTC does not allocate the additional \$22 million that the department requested in March 2000 to complete its rehabilitation project. To satisfy the CTC's desire to reduce project costs yet also satisfy the communities, the department could modify its approach.

The department could prepare condition assessments to identify those features determined to be character-defining, prioritize the features based on their importance, and assess the technical and economic feasibility of rehabilitating the features. An important element of implementing such an approach is recognizing that not all of the features are of equal importance and that interior features may not always contribute to the overall historical significance of the property. As we discussed previously, nearly all of the department's historic properties were classified as such because they contribute to the historical character of the district within which they are located. According to an OHP official, interior features of such properties generally do not make "indispensable contributions" to the historical character of the district, unless they are extraordinary features that are masterfully designed. The department could use condition assessments of each property to rank the importance of interior features and prioritize its rehabilitation efforts accordingly. Based on that analysis, the department could provide the CTC with estimates that include costs for the rehabilitation of only

those interior features that are indispensable contributors, and thus most important, to the overall historical significance of the properties.

Further, the department could explore other ways to reduce costs. For example, the department could save additional costs by performing only partial rehabilitation of historic properties whenever possible. In fact, the department has already performed some partial rehabilitations of six historic properties and has sealed off their remaining portions in order to reduce costs. The department could consider applying this approach to the properties that have not been rehabilitated whenever feasible.

RECOMMENDATIONS

To ensure that any future rehabilitation work that the department performs is as cost-effective as possible, the department should take the following actions:

- 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. Further, it should consider the technical and economic feasibility of planned work when determining whether it has considered the least costly yet acceptable alternative.
- Consult with the OHP as it prioritizes its rehabilitation efforts to ensure that it takes advantage of the flexibility allowed by federal guidelines.
- 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.
- 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.

If it pursues either of its mothballing proposals, the department should ensure compliance with federal guidelines, and it should obtain approval from the OHP as to their propriety.

Finally, 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. Further, the department should notify funding authorities promptly when it becomes aware that existing funding will not be sufficient to meet project goals. ■

CHAPTER 2

The Department Relied on General Services' Process but Did Not Require Documentation to Ensure the Project Complied With Applicable Codes

CHAPTER SUMMARY

The Department of Transportation (department) relied on its contractor, the Department of General Services (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.

VARIOUS BUILDING CODES AND FEDERAL STANDARDS APPLY TO THE PROJECT

The department's right-of-way property along the proposed State Route 710 corridor includes historic properties for which the department must perform any work in accordance with the construction standards set forth in the California Building Code (regular building code), and the State Historical Building Code, which contains requirements unique to historic buildings that sometimes differ from those in the regular building code. The regular building code also requires that minimum safety standards for housing are to be followed. Additionally, the department

follows federal standards, as published in *The Secretary of the Interior's Standards for the Treatment of Historic Properties*, when performing work on these properties. Further, although the department is not subject to local code enforcement actions such as requirements for permits and inspections, the California Streets and Highways Code, Section 104.6, requires the department to conform to local codes that are in effect at the time it acquired its right-of-way properties. However, because the department acquired most of its properties in the 1960s and 1970s, some current local codes may not be relevant to this project.

The State Historical Building Code allows for reasonably equivalent alternatives to the requirements of the regular building code.

Whereas the Secretary of the Interior's standards focus more on the different methods for treating historic properties—preservation, rehabilitation, restoration, and reconstruction—the State Historical Building Code is more specific, addressing the major elements of construction such as structural, electrical, and plumbing work. Specifically, the State Historical Building Code allows for reasonably equivalent alternatives to the requirements of the regular building code where strict application of this code could destroy the historical significance of the property. For example, the regular building code requires at least one room of a dwelling unit to be not less than 120 square feet and other habitable rooms except kitchens to be a minimum of 70 square feet. However, altering a historic property to meet this condition could adversely affect the property's historical significance. Therefore, the State Historical Building Code exempts historic properties from those provisions of the regular building code to allow habitable rooms to be of adequate size for their intended purpose. Finally, if any applicable local code conflicts with the State Historical Building Code, the state code prevails.

ALTHOUGH GENERAL SERVICES HAS A PROCESS DESIGNED TO ENSURE COMPLIANCE, IT DID NOT DOCUMENT THE PROCESS

The department relied on General Services to ensure that work performed on the project complied with applicable building codes. Yet it did not require that the process be verifiable—that is, it did not require General Services to document how it carried out its process. Thus, the department had limited assurance that staff considered and applied properly all relevant codes when performing work on the project.

To assure compliance with all applicable codes, General Services relied on their engineers as well as their architects' own knowledge of the codes.

The department relied on the work plans prepared and signed by both licensed architects from General Services and the department's former chief of its historical architectural specialty branch (architectural historian) to ensure compliance with the applicable state codes and federal standards.³ The General Services architects were responsible for drafting the individual work plan for each historic property to reflect the agreed-upon scope of work to be performed to rehabilitate the property. Each of these architects worked with a team of electrical, structural, and mechanical engineers who walked through the properties, using their expertise to identify the work needed. Each architect then prepared a set of work plans. This set included the architect's stamp, indicating his responsibility for the team's work and attesting to his assurance that the plans were in compliance with the applicable building codes. When we asked General Services staff how they ensured that all the applicable code requirements had been considered, they told us that they relied on their mechanical, structural, and electrical engineers for work involving those disciplines as well as the architect's own knowledge of the codes. In addition, General Services staff stated that architectural and engineering supervisors reviewed the plans before sending them on to its quality control unit for a final review. According to the General Services project manager, the supervisory and quality control review involved checking for errors and omissions within the construction documents. He told us further that the review could range from identifying conflicting information within the drawings that would cause confusion during the work to questioning technical decisions on the part of the architect or engineer.

The General Services project manager informed us that when he started with the project, he had no experience with rehabilitating historic properties. Thus, although he acknowledged that General Services was ultimately responsible for the design of the rehabilitation project, he relied on the department's architectural historian when applying the State Historical Building Code and the Secretary of the Interior's standards and deferred to the architectural historian's judgment if there were differences of opinion regarding work performed for historical purposes. The architectural historian told us that he used his own judgment when making decisions regarding the work performed, but he did not document his reasons for the decisions he made. Therefore, nothing existed beyond his signature on the work plans that

³ Certain other licensed architects under contract with the department were involved in preparing work plans for some properties at the beginning of the project.

would provide assurance that the decisions he made during the rehabilitation work were appropriate to ensure that the work complied with historical code requirements and federal standards.

General Services told us that each property was inspected at least every two weeks and more frequently as needed during the actual rehabilitation work for such things as quality control and code compliance, as well as to determine whether construction was being performed in compliance with the work plans provided by the architects and engineers. In addition, it held regular meetings with the department and the department's architectural historian to discuss the progress of the rehabilitation work on the properties and to provide information to the department about design matters, protection of the properties' historic features, rehabilitation work, and quality control. General Services told us that when a property's rehabilitation was complete, the department, the architectural historian, and the General Services architect in charge of the property all inspected it to ensure that the work done complied with the work plan.

The department did not require General Services to document key judgments, such as identifying the specific code requirements applicable to the project.

Even with this process in place, both the General Services architects and the architectural historian relied on their judgment and the judgment of others to ensure that they considered all applicable code requirements and federal standards and that the work performed was in compliance. However, they could not demonstrate that compliance because the department did not require General Services to document key judgments, such as identifying the specific code requirements applicable to this project. Additionally, the department did not require General Services to document its process for ensuring that requirements were applied properly. Instead, the department simply relied on General Services to apply them. Because it neither required a verifiable process from General Services to ensure compliance nor conducted its own review to provide assurance, the department cannot demonstrate that work on this project complied with all applicable code requirements.

QUESTIONS HAVE BEEN RAISED ABOUT THE PROJECT'S COMPLIANCE WITH CODES

Because the department neither required General Services to use a verifiable process to ensure compliance with the code nor conducted its own review, the department increased the risk that work was not performed as intended. In fact, although our review

in this area was limited by the lack of documentation, we noted instances that raise questions about the project's compliance with codes and demonstrate that misunderstandings have occurred.

Neither the department nor General Services considered a state code section that requires the department to conform to local building codes in effect at the time it acquired its properties.

For example, neither the department nor General Services considered the extent to which the California Streets and Highways Code, Section 104.6, applied to the project. As we discussed in the Introduction, that section requires that the department, when performing work on its right-of-way properties, conform to local building codes that were in effect when it acquired the properties. The department's explanation for not considering whether it had to conform to local codes has been inconsistent. When we first inquired about this issue, the department told us simply that local codes do not apply because the State, as the superior sovereign authority over local government, is not subject to local inspection or enforcement. When we subsequently pointed out that although state agencies are not subject to local inspection or enforcement, the California Streets and Highways Code indicates that the department's work still has to conform to local codes, the department stated that it only had to conform to the local codes in effect at the time it had acquired its properties. We agree with the department's subsequent conclusion. However, department officials told us that because the department had acquired most of its properties in the 1960s and 1970s, they believed any code requirements in effect at that time had been superseded by current codes, and thus there was no need to demonstrate that the project conformed to any local code requirements.

We also talked to General Services staff who stated that municipalities in California regulate building design and construction using the regular building code and amend this code with other regulations particular to their cities. Further, they contended that as the core of city codes and the regular building code is the Uniform Building Code, the work performed on this project should be in near conformance with local codes. They also reminded us that General Services, as an agency of the State, has sovereign authority to perform work on state-owned property without obtaining local building permits.

Nevertheless, neither the department nor General Services can demonstrate that it considered whether the local code requirements in effect when the properties were acquired were ever met or whether these code requirements have since been superseded by new local or state requirements and thus no longer apply. Thus, although both these agencies believe that they do not

need to be concerned about local codes, they have not done any specific analysis to justify their belief. Therefore, the department has only limited assurance that work that conforms to state codes also conforms to all applicable local codes.

Additionally, others have raised questions about the project's compliance with the codes. Specifically, tenants raised concerns with local building inspectors that rehabilitation work on the project did not conform to codes. Beginning in November 1999, local building inspectors inspected three of the properties that had been rehabilitated and discovered several violations of the city code, including inadequate ventilation in a kitchen. The inspectors found violations of the Uniform Building Code as well, including missing smoke detectors at two of the properties and inadequate "ratproofing" at the foundation of one property.

Concerns expressed by tenants raise questions about how well the department has communicated what should be expected from the rehabilitation work performed.

We questioned General Services about some of these apparent violations. It responded by explaining that the smoke detector violations were the result, in part, of misunderstandings between the local inspectors and General Services over whether space beneath a building was livable space, which requires smoke detectors. General Services explained that another misunderstanding resulted when a local inspector noted a local code violation regarding inadequate kitchen ventilation because of a hood above a kitchen stove. However, the inspector was apparently unaware that the existing hood had already been deemed historic and was therefore subject to the requirements of the State Historical Building Code, which allows for reasonably equivalent alternatives to other code requirements. General Services explained that the violation noted for inadequate ratproofing was the result of a tenant altering a foundation screen to allow access for telephone and television cable.

Although these 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 that 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 historic properties and why. For example, the department could rework its lease agreement with new tenants to include specific information about the property including what code requirements were followed during the rehabilitation and how that might affect what work was performed. The department could provide similar information to current tenants in a letter or some other document.

The department has worked out an arrangement with local inspectors for how the department intends to address any future complaints by tenants.

The department responded to the local inspection reports by addressing the misunderstandings, performing some additional repairs in two of the three properties, and attempting to work with the tenant of the third property to complete the repairs. Also, the department has worked out an arrangement with the local inspectors for how the department intends to address any further tenant complaints. In addition, the department told us that since March 2000 it has local inspectors walk through properties before it releases them for rental. The local inspectors can discuss any concerns with department staff at the time of the walk-through inspection. The department stated that local building inspectors have walked through two additional rehabilitated properties since it instituted this arrangement. A local inspector told us that he was generally satisfied with the level of compliance for the two properties. However, better communication with both tenants and local authorities could allow the department to bridge the expectation gap and avoid further misunderstandings about its rehabilitated historic properties.

RECOMMENDATIONS

To ensure that 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 that it has considered and applied properly the relevant code requirements. Finally, the department should look for methods that will provide the community with better information about what they can expect in rehabilitated historic properties.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



ELAINE M. HOWLE
State Auditor

Date: December 14, 2000

Staff: Karen L. McKenna, CPA, Audit Principal
Ken L. Willis, CPA
Susie Lackie, CPA
Carol MacMillan
Juan R. Perez

Agency's comments provided as text only.

Business, Transportation and Housing Agency
980 9th Street, Suite 2450
Sacramento, CA 95814-2719

December 5, 2000

Elaine M. Howle
State Auditor
Bureau of State Audits
555 Capitol Mall
Sacramento, CA 95814

Dear Ms. Howle:

Attached is the Department of Transportation's (Caltrans) response to your draft report, *Department of Transportation: Inadequate Strategic Planning Has Left the State Route 710 Historic Properties Rehabilitation Project Nearly Without Funds and Less Than Half Finished* (No. 2000-127). As its response indicates, Caltrans agrees to implement the report's recommendations to, among other things, approach future rehabilitation work in a strategic and systematic fashion, with an emphasis on cost effectiveness and documentation. The Business, Transportation and Housing Agency (Agency) certainly supports and encourages such an approach, but also is pleased that your report acknowledged the community concerns and environmental considerations that we believe cannot be ignored in the decision-making process for rehabilitating historic properties.

We are thankful for your review, and for the opportunity to respond to the draft report. Your report's recommendations will be very helpful in improving Caltrans' current and future rehabilitation of historic properties. If you need additional information, please do not hesitate to contact me, or Michael Tritz, Chief of the Agency's Office of Internal Audits, at (916) 324-7517.

Sincerely,

(Signed by: Maria Contreras-Sweet)

MARIA CONTRERAS-SWEET
Secretary

Attachment

Department of Transportation
Office of the Director
P.O. Box 942873
1120 N Street
Sacramento, CA 94273-0001

December 5, 2000

MARIA CONTRERAS-SWEET, Secretary
Business, Transportation and Housing Agency
980 – 9th Street, Suite 2450
Sacramento, CA 95814

Dear Secretary Contreras-Sweet:

I am pleased to provide our response to the Bureau of State Audit's (BSA) report on the Department's expenditure of state funds to rehabilitate historic properties along the proposed State Route 710. As you are aware, there is a long and complicated history to the 710 project, and the Department has been in the unaccustomed position of being a long-term landlord, overseeing the maintenance of these historic properties. Community, environmental and legislative factors have had major impacts on decisions affecting the properties.

The BSA report identified that the Department did not adequately plan for the project and cannot demonstrate that it used the most cost-effective approach. Also, the Department relied on General Services' process, but did not require documentation to ensure the project complied with applicable codes. The Department agrees with the findings. However, we would like to state that the Department's return on investment is restricted by the Roberti Bill. When selling excess property along the Route 710 corridor, the Roberti Bill requires the Department to sell at a price level dictated by occupant income, which is most likely less than the market value and the Department's cost. As such, the most cost-effective approach may not be available.*

The Department agrees to implement the recommendations to ensure any future rehabilitation's work the Department performs is as cost-effective as possible, and to develop a process to identify and evaluate all code requirements related to the project. In response to these recommendations, the Department will analyze available options and document decisions made for all future historic rehabilitation projects.

If you have any questions, or require further information, please contact Gerald Long at (916) 323-7122.

(Signed by: Jeff Morales)

JEFF MORALES
Director

* California State Auditor's note: The Roberti Bill to which the department refers resulted in the California Government Code provisions we discuss on page 30 of the report.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press