

**Council of State Governments
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Georgia

Government Operations – Administration

Surplus Property Division

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Description: The Surplus Property Division is responsible for the final disposition of all state personal property through redistribution, sales and destruction. The program has been revised from a traditional brick and mortar warehouse operation to a completely virtual process.

Operational Period: Converting the surplus sales process in GA from live auctions to completely web based occurred in September 2005. The last “live auction” held was to liquidate inventory prior to relocating the warehouse. The three surplus warehouses were physically closed in October 2008, when the process went completely virtual.

Chronological Process:

- September 2005 – The largest surplus facility held the last live auction to liquidate inventory for a move to smaller facility. By increasing the number of inventory turns through internet sales, we were able to reduce the storage space needed.
- October 2006 – Internet sales process proved so successful that the program added three internet sales personnel to enhance capability and increase inventory turns. One clerk was assigned to each of the three centers and a fourth was responsible for all on-site disposals (items not sent to a center). As inventory turns increased, so to did the overall RIO/item due to larger customer base of internet sales.
- February 2008 – Conducted cost of goods sold analysis of all commodities sold through the surplus process. Analysis determined:
 - only internet, on-site sales consistently generated positive cash flow
 - >70% of the revenue was vehicles and heavy equipment sales
 - vehicles and heavy equipment were only 1.5% of the volume by piece
 - all other commodities in the warehouses consistently sold at a loss

- Analysis only accounted for Surplus costs, not associated agency costs such as storage or transportation.
- June 2008 – Conducted departmental strategic planning and developed the business model to convert to completely virtual disposal over two years. This was the same time that the economy was declining as were state revenues. The decline meant agencies would not replace equipment and there was a moratorium on new vehicle purchases. Surplus knew that as a self-funded entity, there would not be sufficient property to sustain the current warehouse model.
- September 2008 – Announced closure of all three warehouses and began liquidating inventory. Developed disposal decision matrix to send to all state agencies to help streamline the disposal process
- October 2008 – Closed all warehouses, released staff, and began completely virtual processing of surplus property.

Creative Methodology: While many businesses discuss virtual processing, very few (especially government) have been able to transition successfully from brick and mortar operations. We believe that this is particularly unique because to the documentation supporting the transition. We are able to conclusively demonstrate that this model is in the state's best interest. Sales matrix assists agencies in determining the appropriate disposal method based on the Fair Market Value (FMV). If the FMV is:

- <\$20 – Destroy. Insufficient value to even sell
- \$20 - \$50 – Offer through “Buy it Now” sale
- >\$50 – Sell through on-line auction
- Items not sold would be donated to charities.

Start-up costs: Since GA was already conducting disposal through internet sales, there were no additional start-up costs.

Operational Costs: The FY-09 costs are \$1.6 million. However, this includes salary for warehouse staff and costs to decommission the warehouses for the first four months of the FY. Warehouse staff represented 66% of the Surplus FTE's. Immediate savings were \$1 million for the remainder of FY-09. These costs will decline in future fiscal years as additional savings are realized through facilities closures.

Funding: The Surplus Division is a proprietary, self-funded entity from service charges for transfers to eligible customers and sales to the public. It receives no state appropriated funds. GA statute provides that some entities receive the proceeds of their surplus sales. While Surplus authorizes and conducts the disposal, it receives only 10% commission on these transactions. In FY-09, 65% of the gross proceeds have been returned to other state entities.

Legislation: There was no additional legislation required to implement this program. Current statutes (O.C.G.A 50-5-140) delegate this responsibility to the Commissioner, Department of Administrative Services.

Technology: Other than internet access, there is no unique equipment or software required for this program. The Surplus Division tracks sales through a locally developed database, but there are numerous applications that this can be accomplished in.

Origination: Not sure if other states have gone completely virtual for managing both federal and state surplus personal property programs. We are aware that other states have closed warehouse facilities, but not if they maintain the same level of control or service.

Pros: This process is the most efficient method for the disposal of surplus assets. It leverages the tremendous visibility of the internet at significantly lower costs than any other type of sale. Coupled with the corresponding reductions in transportation, storage and personnel costs, this process is simply the most cost effective and efficient way to dispose of surplus.

Cons: Single largest hurdle we have encountered is educating other state agencies of the benefits of the process. There is a sense that they are “doing our work”. We continually have to demonstrate the cost savings, that there have always been the indirect costs associated and that the process now saves these hidden costs.

Changes: The program is fully implemented however we strive for continual improvements to streamline the processes and reduce costs:

- Evaluating several vehicle sales methods such as on-site internet sales over private auto suction services. Which will consistently provide the highest ROI and service?
- Enlisting charitable organization to accept property that is not sold but still has useful life. This make needed property available to the support the local community while reducing the state’s disposal costs. It promotes recycling of state assets.
- Evaluating buyer default rates with different internet vendors to minimize repeat listings that increase cost and decrease productivity.
- Implementing other payment options (PayPay) to give customers greater flexibility in paying for items. This also reduces costs and the need for maintaining and controlling cash.

Obstacles: Other agencies will most likely encounter the cultural issues described in the “con” section. Resisting change is human nature even if all of the evidence supports it.