



Using Innovative Techniques to Enhance Sale of State Surplus Property

Summary

Each year, California sells thousands of surplus property items—from personal property confiscated by law enforcement to used, but useful equipment, furniture and vehicles. Some of these items are sold through traditional “cash-and-carry” methods at live public auctions. A few agencies sell items on the Internet. The lack of an integrated reuse program that takes full advantage of available technologies and partnerships with the private sector is costing the government significant dollars in unnecessary costs and lost revenues. The state should establish a single surplus property reuse program that leverages the best technologies and public/private partnerships to reduce costs and maximize state revenues.

Background

The state continually sells property deemed to be “surplus” to other governmental entities, nonprofit organizations and the general public. This includes automobiles, furniture, computers, tools, jewelry and other personal property. Surplus property is also generated from items confiscated by law enforcement agencies. Annually, the state collects thousands of items for sale. The Department of General Services (DGS), one of the major sellers of surplus property, receives about 16,000 shipments each year with each shipment containing anywhere from a single item up to 200 different pieces of surplus property.¹

The traditional method for property reuse has been through public sales at Sacramento warehouse facilities. But with a limited marketplace, this method typically only realizes highly discounted “garage sale” values for the items sold.² This method is very slow in terms of the average time-to-sell products, adding to the costs of warehousing and maintaining these items. Overall, the current method of state property disposal yields a lower-than-desired return on investment.

Some state departments are looking to the Internet

The rising popularity of selling and buying items on the Internet through eBay and other similar services has some state departments turning to technology and partnerships with the private sector to reduce costs and enhance revenues from surplus property. Participating departments are reporting some encouraging results.

DGS began selling surplus property to the public via a partnership with eBay in April 2000 under a program called CaliforniaGold2000.³ DGS established itself as an entity accountable for the receipt, warehousing, sale or donation and distribution of state and federal surplus personal property to qualified agencies and to the general public through two warehouse facilities.⁴ The objectives are to sell and move the surplus property more quickly and increase

revenues. DGS reports that it will typically sell an item on eBay for up to three to five times more than it had sold at previous in-house auctions.⁵

For example, a forklift that had a noted mechanical problem, sold for \$2,000 on eBay; a similar make and model item that had no mechanical defect had sold for only \$700 under the previous auction system.⁶ Additionally, it typically took months for an item to sell under the old auction system but most items sell within nine days on eBay.⁷

Since its inception, the CaliforniaGold2000 surplus eBay program has sold more than 3,654 items generating income of \$668,000 for the state. It is estimated that the previous reuse program would have only realized approximately \$207,000 from the same items sold in the CaliforniaGold2000 program.⁸ In addition to traditional items such as laptop computers, cameras, tires, cell phones and tools, the state has also sold many unique items including:⁹

- A Continental aircraft engine for \$18,201;
- A 2.75 carat diamond ring for \$6,729;
- An Ikegami video camera for \$3,726; and
- A Clark forklift for \$1,926.

DGS contends that it could significantly increase sales and revenues in the eBay program, but has been hampered from doing so because of a loss of staff due to budget constraints.¹⁰

The California Department of Transportation recently posted three vehicles on eBay as a pilot project. The department intends to evaluate this “pilot effort” and will probably expand its use if proves worthwhile.¹¹

The State Controller’s Office (SCO) sells escheat or unclaimed property that it receives and stores. In 2003, SCO ran a pilot project by selling items on the Internet, and as a result, entered into a contract in May of 2004 with a private company to manage the sale of all of its unclaimed properties.¹² The contractor takes a percentage of every item sold as its fee. Experience has demonstrated that the actual amount received on a given item often exceeds the amount that would have been received via the traditional auction and is often greater than the appraised value.¹³

Oregon leads the way

Since 1998, the State of Oregon has used eBay to auction off various items from cars confiscated from drug dealers to surplus office equipment.¹⁴ The heart of the program lies with an enterprising organization within that state’s Department of Administration. Offering a full-spectrum of online auctioning services to other Oregon state agencies—from photographing, posting, online auctioning, receipt of payment, shipping and distribution of revenues to donor organizations—the program is self-funded, supported solely by taking a percentage of revenues from sold items. The program requires no state general fund dollars.¹⁵



According to Oregon officials, the program has been paying dividends. Earlier this year, the state sold 80 surplus police cruisers and received an average of 125 percent of the Kelly Blue Book value for the vehicles, according to Nole Bullock, the marketing director for the program. “Most agencies would get wholesale value and they’d probably be happy with that,” says Bullock. “They’re getting about seven percent of the acquisition value, and we’re getting about 18 percent. It’s the speed of the market and the size of the market.”¹⁶ According to Bullock, the average speed-to-market (the time it takes to sell an item) has been reduced from an average of 75 days to 15 days.¹⁷ This is not surprising considering that eBay has 105 million registered users on its system.¹⁸

Bullock labels the innovative Oregon program as the new “click-and-mortar” operation of the 21st century and summarizes the scope as follows:¹⁹

“Through aggressive use of emerging technologies, Oregon’s Surplus Property Program provides nationwide disposal/sale of surplus vehicles, heavy equipment and personal property. Agency costs are reduced, while visibility is elevated to national levels by utilizing the world’s largest online vendor (eBay). Pioneers of ‘Virtual Custody,’ Oregon has developed a method whereby property can remain with the custodial agency throughout the entire sale process; eliminating the need for additional handling and/or costly transportation to a centralized sale site.”

The program has proven to be a significant revenue generator. “In 2002, the Oregon surplus program sold \$7.3 million and gave about 84 percent of the money back to the sellers,” declares Stacey Koller, the program’s business manager. “We don’t take money from the state, we give it back.”²⁰

The program’s success has attracted other customers, including the federal government and the city of Lynchburg, Virginia. Oregon’s “click-and-mortar” program is selling cars and heavy equipment for the U.S. Department of the Interior, as well as fire truck and four-wheel drive vehicles for Lynchburg.²¹ California could likewise take advantage of Oregon’s success.

California can move ahead

California is poised to learn from the Oregon experience and create a surplus property program that can build on the state’s current experience with online selling and use of public/private partnerships. The state has the opportunity to create a program that would have the following features of a 21st century government:

- Create an enterprising, self-funded and competitive state operation that would generate revenues for other state agencies;
- Leverage the power of online and other technologies;
- Seek the strengths of public/private cooperatives;
- Enhance its customer service to the public; and
- Pave the way for other creative ventures in California state government.

Recommendations

- A. The Governor should direct the Department of General Services, or its successor, to establish an online surplus property program using the Oregon program as a “best-practice” model.**

The program should be based upon a prescribed “fee-based” per-item-sold system with the intent of becoming self-funded and not require any state general fund dollars. The program should leverage the power of technologies and the strengths of public/private partnerships. All state surplus property programs within the Governor’s jurisdiction will be consolidated into the newly created program.

- B. The Department of General Services should work with the State Controller’s Office to determine whether a single, consolidated statewide public/private partnership surplus property program is warranted.**

Fiscal Impact

While there will be some initial upfront operational costs, the program is expected to become self-funded and no longer in need of state general fund dollars. State revenues are expected in the form of increased and faster sales and a reduction in costs due to efficiencies realized in the new system. Actual savings cannot be determined at this time.

Endnotes

- ¹ Interview with Dan Mc Donough, manager, Materials Management, California Department of General Services, Sacramento, California (July 12, 2004).
- ² Department of General Services, “E-Surplus, An Online Auction Program for the Property Reuse Program,” (Sacramento, California, July 7, 2004), p. 1.
- ³ Department of General Services, “Department of General Services sells surplus property On-Line,” (Sacramento, California, April 13, 2000), p. 1. http://www.dgs.ca.gov/News/Archive/2000_03-ebay.htm (last visited July 10, 2004).
- ⁴ Department of General Services, “Information Concerning California Surplus Property Programs,” (Sacramento, California), p. 1, <http://members.ebay.com/ws2/eBayISAPI.dll?ViewUserPage&userid=californiagold2000> (last visited July 10, 2004).
- ⁵ Interview with John Hilton, associate materials analyst, Department of General Services, Sacramento, California (July 9, 2004).
- ⁶ Interview with John Hilton.
- ⁷ Interview with Dan Mc Donough.
- ⁸ Department of General Services, “E-Surplus, An Online Auction Program for the Property Reuse Program.”
- ⁹ Department of General Services, “E-Surplus, An Online Auction Program for the Property Reuse Program.”
- ¹⁰ Interview with John Hilton.
- ¹¹ “Caltrans to sell cars on eBay,” “Contra Costa Times,” (Contra Costa County, California), July 3, 2004.



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- ¹² Interview with Rob Huarte, chief, Division of Collections, State Controller's Office (Sacramento, California) (July 9, 2004).
- ¹³ Interview with Rob Huarte.
- ¹⁴ "Oregon turns to eBay for massive surplus sale," *"USA Today,"* June 5, 2003, p. 1
www.usatoday.com/tech/news/2003-06-05-oregon-ebay_x.htm (last visited July 11, 2004).
- ¹⁵ Interview with Nole Bullock, marketing director, Oregon's Surplus Property Program (Salem, Oregon, July 9, 2004).
- ¹⁶ "Caltrans to sell cars on eBay," *"Contra Costa Times."*
- ¹⁷ Interview with Nole Bullock.
- ¹⁸ Harry R. Weber, "Auction helpers," *"Sacramento Bee"* (July 8, 2004), p. D-1.
- ¹⁹ Nole Bullock, marketing director, Oregon Surplus Property Program, "Online Sales, The Oregon Alternative," p.3.
<http://tpps.das.state.or.us/surplus/oregon.ppt>
- ²⁰ "USA Today," "Oregon turns to eBay for massive surplus sale," June 5, 2003, p. 2.
- ²¹ "USA Today," "Oregon turns to eBay for massive surplus sale," June 5, 2003, p. 1.