

Virtual Surplus Property Disposal

What happens with all the equipment and item purchased by the state that is no longer needed or well past its useful life? In GA, it used to go to a DOAS Surplus warehouse where the first priority was to re-distribute any items to other state agencies or local municipalities who may need item. After a period of 30 days, items not re-distributed were sold to the general public. Additionally, the division is the state's agent for the federal surplus property program.

For years, the Surplus division warehoused items and held quarterly live auctions, literally selling everything in each of three state surplus warehouses. Since the auctions were held quarterly, inventory turns were 4 per year.

With the advent of internet auctions, several years ago Surplus began utilizing websites to sell surplus. Websites like eBay and GovDeals have been used to significantly broaden the buyer audience. During this period, up to 70% of the state's surplus goods were sold over the internet and warehouse inventory turned over 12 times annually. This has helped make the Surplus operation more efficient.

Along this same time, DOAS conducted a cost analysis to determine the costs involved in handling the sale of various categories of surplus items. We found that over 70% of sales revenues were generated by just 1.5% of the surplus goods. Thus, cars and trucks generate the vast majority of the revenue, though they represent very little of the surplus item count. We further discovered that the state was losing money, by trying to sell other surplus commodities such as office furniture and equipment.

As these efficiencies were refined, DOAS management embarked upon a plan to gain further efficiencies in Surplus operations. A 2-year plan was designed whereby the operation would morph into a virtual operation utilizing the internet to sell all goods in place, and eventually eliminating the need to transport and store goods at the state's three warehouses.

However, severe economic conditions and the resulting budget cuts affected each state agency and university. What was seen as a temporary reduction in surplus property sales in fiscal year 2008 turned into a long-term trend. Since DOAS Surplus receives no state appropriated funding, it must operate to cover expenses based on revenues received from the sale of goods. What had been a 2-year plan to further streamline Surplus operations had to be enacted almost immediately. Accordingly, the 3 warehouses were closed and we have retained Surplus sales offices in each location. Items are now disposed of entirely "in-place" rather than transporting to a warehouse.

In our new business model, we ask agencies to notify Surplus as soon as they are ready to dispose of an item. Agency property personnel e-mail item descriptions, photos and disposal requests directly to the surplus offices. After offering the items to eligible participants, the disposal process follows a decision matrix based on the estimated Fair Market Value (FMV). Items below \$20 are scraped or destroyed. Items with a FMV between \$20 and \$50 are offered on-line as a "Buy-it-Now" item. Finally, items with a FMV greater than \$50 are sold through an internet auction. The federal program has been revised to a "direct donation" model where items are no longer transported to a warehouse but sent directly from the federal agency to the state recipient.

The streamlined process now focuses on moving information, not material; a much more efficient and economical process.

How long has the program been operational?

The internet sales program has been the primary disposal method for DOAS Surplus since September 2005. Even prior to this, "on-site" sales were encouraged but not mandatory. However, the volume of surplus assets fell so dramatically that the three surplus warehouses were closed in October 2008. Since that time, all assets have been disposed of "on-site" through the virtual disposal process.

What were the program start-up costs?

There were no significant program start-up costs but rather a reprogramming of operational costs. All of the technology is available to all government entities to convert to a virtual business model. Since the Surplus division was already conducting internet sales; staff, equipment and procedures were already in place to convert to the virtual model.

What are the programs operational costs?

The budget for the remaining staff and operations is \$1.6 million. However this amount reflects costs that will not recur in future years (first quarter of salary for warehouse staff).

How is the program funded?

The surplus program is a proprietary entity and is self funded through service charges to eligible program participants and the proceeds of sale of materials to the public. Interestingly, numerous state entities (depending on the legislation that established them) receive the proceeds from the sale of their surplus, less a commission (10%) paid to Surplus for conducting the disposal. For FY-2009, 66% of the gross revenue generated by the sales has been returned to these agencies while the remainder funds the Surplus operations.

How do you calculate savings – Short Term vs. Long Term?

There are numerous direct and indirect savings for both the short and long term realized from this business model. Program operational costs have been reduced by approximately \$1 million per year with the closing of the warehouses and the corresponding reduction in staff. Short term, direct savings include reduced personnel and facilities costs that are real and essentially immediate. Capital warehouse assets and equipment were either redistributed or sold reducing short and long term expenses (as well as generating revenue.) Long term savings statewide are almost incalculable. Agencies are no longer transporting items that have little or no retained value. The virtual process also shortens the disposal cycle time from 30 days to approximately 15 which reduces storage costs statewide.

The state's federal surplus program is also benefiting from this model. We have eliminated all of the warehouse and transportation costs for materials that may or may not have been redistributed. Now the onus to find federal property is on the customer and the Surplus division simply arranges the transfer with GSA and collects a service charge. Surplus staff does spend some time screening for federal property. Items of interest are e-mailed to customers on a weekly basis. This also creates a 100%

donation rate with GSA, an important factor in the property allocation formula between states.

How do you measure the program's success?

State agencies now have more control over the disposal process and are reducing indirect disposal costs. For example, assuming that the state disposes of 1500 vehicles per year and transportation to a surplus center averaged \$150/vehicle, the savings is to the state \$225,000 in transportation alone. This model also reduces the sales cycle time from approximately 30 days to 15. Also, we have realized a 12% to 20% increase (depending on the commodity) in the ROI through internet sales. Taxpayers benefit from the significant increase in the availability of property. No longer do you have to catch the auction newspaper ad, take off a whole day to hopefully get the one item you wanted. Surplus is now available to anyone in the state, 365 days a year through internet sales. Also, since items remain in-place, public buyers may be more inclined to bid on an item that is local, rather than having to travel across the state. Finally, Surplus will have reduced its operational expense by greater than 50% in the following fiscal year.

How has the program grown or changed since its implementation?

One of the challenges encountered is educating the state entities on the advantages of this process. Considerable marketing and education may be needed to achieve cheerful compliance. As they see the process work to their benefit, they become willing to send more and better information to surplus to accomplish the disposal.

Describe the program's applicability to other state/local/federal governments?

This program is applicable to all government entities. The federal government has already converted to this model on a much larger scale. They have developed their own sales web sites and tracking systems. Additionally, this model has allowed them to reduce the number of Defense Reutilization Marketing Office (DRMO) sites from 58 to 18 nationwide. It is a cost effective, efficient, and safe method of asset disposal regardless of the entities' size. Anyone can sell on-line!