

Changes Made to DOAS Surplus Operations

We all know that our state government is large, complex and far-reaching with regards to the services our state provides to taxpayers. The State of Georgia, as an enterprise, conducts daily business in so many different areas, each of which requires numerous goods purchased to assist agencies in delivering needed programs and services to the taxpaying public.

Our best estimate is that agencies and universities spend upwards of \$3.7 Billion on various goods and services each year. Many of these purchases are for vehicles, office equipment, computer hardware, medical equipment, tools and myriad other items. While different goods are used for different durations, the fact is that every item has a “useful life” defined as the period of time when the item is being utilized until it is no longer needed, or the item simply wears out beyond repair. I think several of you would agree that many of our state vehicles fit the latter category.

So what happens with all the equipment and goods purchased by the state which is no longer needed or well past its useful life? It goes to DOAS Surplus where the first priority is to re-distribute any Surplus items to other state agencies or local municipalities who may need any item offered by DOAS Surplus. After a period of 30 days, any items not re-distributed are sold to the general public.

For years, the Surplus division at DOAS held quarterly auctions to dispose of all state surplus goods, with auctions typically lasting a full day literally selling everything in each of 3 state Surplus warehouses. Since the auctions were held quarterly, inventory turns were 4 per year, and most buyers were a few local citizens who happened to see ads placed for the auctions.

With the advent of the internet a few years ago, DOAS Surplus began utilizing websites to sell state surplus. Websites like eBay and GovDeals have been used primarily to significantly broaden the buyer audience and at last count, buyers have come from 39 states and 7 countries to purchase surplus goods from the State of Georgia. Currently, up to 70% of the state’s surplus goods are sold over the internet and inventory now turns over 12 times annually. This has helped make the Surplus operation more efficient, and as a result, the operation became leaner with less staff needed to handle increased volumes.

As these efficiencies were refined, DOAS management embarked upon a plan to gain further efficiencies in the way DOAS Surplus operated. Thus a 2-year plan was designed whereby the operation would morph into more of a virtual operation utilizing the internet to sell all goods, and eventually eliminating the need to store goods at the state’s three (3) warehouses.

As we all know, severe economic conditions and the resulting deep budget cuts affected each state agency and all state universities. What was seen as a temporary reduction in surplus property sales in fiscal year 2008 turned into a long-term trend. In FY2008, surplus sales decreased by more than \$650,000 over the previous year. Already, through the first quarter of FY2009, the Surplus division finds itself more than \$150,000 in the red.

So what happened you ask?

Agencies and universities decided to hold on to goods they would normally send to Surplus. With uncertainty surrounding the state's economy, and with moratoriums placed upon purchases of vehicles and new equipment, the flow of surplus goods to DOAS decreased even more drastically within the past few months.

And since DOAS Surplus receives no state appropriated funding, the unit must operate to cover expenses based on revenues received from the sale of surplus goods. This self-funded business model, while made more efficient with past moves to streamline operations, had to be further streamlined in order to become financially neutral.

Thus, what had been a 2-year plan to further streamline Surplus operations had to be enacted almost immediately. Accordingly, moves have been taken to shutter the three (3) surplus warehouses, located in Swainsboro, Americus and Tucker. Plans are to keep Surplus Sales Offices in each location, but the costs associated with operating the warehouses far outweighed the revenues being generated from the lower flow of Surplus property being sent to DOAS.

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 Surplus sales revenues were being generated by just 1.5% of the surplus goods. Thus, cars and trucks generate the vast majority of the sales, although they represent very little of the surplus item count. We further discovered that the state was losing money, in some cases quite a bit of money, by trying to sell other surplus goods.

One example we have cited repeatedly is your typical office desk. A desk might sell for an average of \$7, and yet the costs to obtain the desk, put it into inventory in a warehouse, post it for sale and then finalize the sale costs up to \$27. On this one item alone, DOAS was losing \$20 on behalf of the state, and that's not counting any agency or university costs to ship the desk to us.

So in our new business model, we will ask agencies and universities to notify DOAS Surplus as soon as they are ready to dispose of a good. If the estimated Fair Market Value is below a certain dollar level, say \$20, the agency will be authorized to scrap the item. It can be thrown away, or the Surplus division will authorize a scrap supplier to pick the item up from your agency or university at no cost.

If the item has nominal value from \$20-\$50, it will be posted by DOAS Surplus staff for a maximum of 3 days on one of internet sale sites and buyers will be directed to pick up the item from its existing location. Higher dollar values will be posted for a slightly longer period, however agencies will not be asked to retain items for more than 15 days.

By eliminating the costs of the Surplus warehouses, the warehouse fleet and the warehouse staff, DOAS Surplus will be able to continue operating and performing its statutory duty of disposing of the state's used assets. And with a 99.5% Seller Approval Rating on eBay, the efficiencies in today's technology solutions will allow for an even more efficient State Surplus operation that won't unnecessarily burden state agencies and universities while allowing the unit to become financially viable.

Questions about the new State Surplus business model can be directed to Steve Ekin at 770-414-6468.