

**REPORT OF THE
VIRGINIA DEPARTMENT OF GENERAL SERVICES**

Use of Real Property Assets

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



SENATE DOCUMENT NO. 20

**COMMONWEALTH OF VIRGINIA
RICHMOND
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COMMONWEALTH of VIRGINIA

Department of General Services


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MEMORANDUM

To: The Honorable Mark R. Warner and
The Honorable Members of the Virginia General Assembly

From: James T. Roberts 

Subject: December 1, 2004 Report

§ 2.2-1131.1 of the Code of Virginia was enacted in the 2004 Session of the General Assembly. In general the statute anticipates the development of performance standards involving the state's use of real property assets, and it provides for an annual report on progress in this area. Specifically the section reads as follows:

§ 2.2-1131.1. Establishment of performance standards for the use of property.

A. The Division shall establish performance standards for the acquisition, lease and disposition of property and for the management and utilization of such property at the individual agency and statewide levels to maximize the use of property for which it is held. For the purposes of this section "property" means the same as that term is defined in § 2.2-1147.

B. The head of each state agency or institution shall ensure that property assets held by the agency on behalf of the Commonwealth are managed in accordance with the standards set by the Division. State public institutions of higher education that have delegated authority to manage aspects of their real property usage and have signed a memorandum of understanding with the Secretary of Administration related to such delegated authority shall be deemed in compliance with the standards set by the Division as long as they abide by the terms of the memorandum of understanding. Standards established in accordance with the memorandum of understanding shall be reported to the Division by October 1 of each year.

C. The Division may take appropriate actions, including assuring compliance with the standards set by the Division and entering into leasing arrangements or other contracts, to ensure that asset usage by each state agency is proper and cost effective.

D. By December 1, 2004, the Division shall submit a report to the Governor and the General Assembly on the performance standards established pursuant to subsection A. Thereafter, the Division shall prepare, no later than November 30 of each year, reports to the Governor and the General Assembly on the implementation and effectiveness of this program.

In 2002, the Governor's Commission on Efficiency and Effectiveness recommended that the Commonwealth undertake better management of real property. Subsequently, the Department of General Services, through a competitive solicitation, engaged the consulting services of industry experts to provide advice on prevailing real estate trends and best practices. The Governor issued Executive Order 75 (2004), which calls for the establishment of a comprehensive portfolio management program, including both leased and owned facilities. The four primary areas of this initiative include: developing a portfolio management strategy, restructuring the organization, redesigning the business process and data integration and creation of an MIS strategy.

The following values form the foundation of this new portfolio management system:

- Customer service
- Collaboration, facilitation and joint problem-solving
- Performance standards and measures
- Cost savings and efficiencies

This is a bold initiative based on a completely different business model. We are transforming from a fragmented, regulatory system to a customer focused, service providing system. With extensive collaboration among owner-agencies, a system-wide reengineering of the Commonwealth's real estate process is being developed, including acquisitions, sales, easements and leases. Our goal is to create a world-class real estate organization that includes restructuring DGS operations as they relate to real estate.

An integrated real estate portfolio management system for leased and owned property is being designed and implemented that will be customer-oriented and business-based, including strategic planning, transaction management, project/construction management, lease administration, and facilities and space management. The new portfolio management system takes an enterprise-wide perspective, but does not include all of the State's real estate holdings. Our initial focus will concentrate on the greatest opportunities for savings, especially in office and warehouse space. While our developing real estate expertise will be available to all State agencies in a consulting mode, we do not anticipate specialized facilities such as prisons, mental hospitals, real estate on campuses of our universities, those purely off-campus facilities devoted solely to academic classrooms, and retail-oriented programs such as the ABC outlets to be within the primary scope of the initiative.

Purchasing/selling functions as they relate to public monies spent for projects will continue to be evaluated for taxpayer value and market congruence.

We are developing master lease and co-location strategies statewide to augment the efficiency of our space use while enhancing the consistency and quality of facilities. Again, collaboration and customer service will be the lifeblood of these strategies. Additionally, we expect that citizens will appreciate the improved access resulting from compatible state agencies being more closely located and coordinated.

A Real Estate Agency Roundtable has been convened as a pivotal component of this real estate portfolio management initiative. The Roundtable is chaired by the Secretary of Administration and comprised of the directors of major state agencies that lease or own real property, and representatives of the smaller state agencies that are customers of real estate services. The Roundtable serves to articulate the needs of these customer groups and provide input on alternative methodologies and systems of real estate management.

Since real estate information has been widely dispersed across state agencies, a consolidated real estate database is under development to support accurate analysis and strategic recommendations. All state agencies and institutions that lease or own office space have been surveyed, including their facility needs. The new data requires additional verification and refinement, which is ongoing.

We know that technology upgrades will be required to realize savings and efficiency improvements with the new portfolio management program. Thus, a strategy to upgrade and consolidate databases and other information systems is being developed, with VITA's consultation, including alternative systems, costs, financing and phasing options.

A comprehensive portfolio management system for real estate will generate many improvements, including economies of scale and market leverage in leasing and contracts, fewer redundant support areas, better space utilization, more productive use of staff, more consistent and higher quality facilities, and better environments for teamwork, communication and collaboration. Additional benefits include better citizen access, more real estate expertise incorporated into operations, greater flexibility to respond to business changes, enhanced collaboration among agency programs, and a more efficient and less confusing process for private landlords and owners.

Implementation of this initiative will unfold over time, and include the development of a body of specific performance standards, but already includes several significant achievements consistent with the new §2.2-1131.1, as follows,

- **PORTFOLIO MANAGEMENT:** A principal objective of the current initiative is to manage real estate as a single enterprise. We are currently developing a body of strategic procedural and organizational plans aimed at establishing an enterprise-wide management function.
- **SPACE STANDARDS:** We have adopted a new space standard for state office facilities, with a goal of averaging 210 usable square feet per employee, which is down from the previous standard of 250 usable square feet per person. The new standard is more in line with national trends and is expected to produce cost savings of 15% or more over time.
- **FIT-UP STANDARDS:** We have developed new standards for interior fixtures, finishes and equipment that will provide effective and productive facilities at reasonable cost for owned and leased facilities.
- **STRATEGIC PLANNING:** We have collected information on the current cost and utilization of owned and leased office facilities. With this information, that includes staffing levels, we are able to apply the new space standards, determine where excess space exists and focus efforts on the most productive areas.
- **CO-LOCATIONS:** We have identified several opportunities for co-locating state agencies and are taking steps to synchronize lease termination dates to allow future action. More immediately, we have begun negotiating “umbrella” agreements at leased facilities where we have found existing *ad hoc* co-location of state agencies.
- **IMPROVED LEASE TERMS:** As existing leases expire, we are actively conducting market analysis to identify opportunities for better and more flexible lease terms. Pro-active negotiations with landlords, using expert brokerage services, are resulting in more favorable lease terms, including cost savings in selected lease payments and/or tenant improvements.

This real estate initiative is a multi-year process that will gain momentum and progress over time. The early, initial roll out period will generate system wide changes and the usual upfront investments and challenges with new and innovative programs. However, the long-term benefit is tremendous. The goal of all of these efforts is to take maximum advantage of the Commonwealth’s considerable buying power working across the enterprise, while providing lower costs and greater flexibility. The actions set forth above, and those under development as part of the Governor’s real estate initiative will make a significant difference in the cost and quality of the many facilities needed by Virginia agencies and institutions to carryout their public missions.

We will be pleased to discuss these issues with you, or to provide any additional information that may be needed.

c: The Honorable Sandra D. Bowen