



COMMONWEALTH of VIRGINIA
Department of General Services

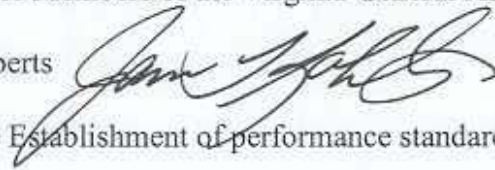
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MEMORANDUM

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

FROM: James T. Roberts 

SUBJECT: Report on the Establishment of performance standards for the use of property.

§ 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 the 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.

Background

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

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.

2005 Activities

To implement this initiative, in January 2005, an organizational restructuring was undertaken within the Department of General Services whereby the Division of Real Estate Services (DRES) was created and the Bureau of Real Property Management, a former bureau within DGS's Division of Engineering and Buildings, was eliminated.

DRES completed the first phase of its organization ramp-up in 2005 and now has a staff complement of 12.5 full staff equivalents (which includes three new positions and the transfer of existing positions from the former Bureau of Real Property Management).

The establishment of an integrated real estate portfolio management system for leased and owned property is being designed to be customer-oriented and business-based, including strategic planning, transaction management, and space management in the short term and in the long-term, could include an expansion of services to project/construction management, lease administration, and facilities management. The new portfolio management system takes an enterprise-wide perspective, but does not include all of the State's real estate holdings. The initial focus is concentrated on leased office space, which affords the greatest opportunities for savings. The consultant's study estimated the net present value of potential savings that could be achieved through better portfolio management at \$68 million over a ten year period. While DRES's real estate expertise is available to all State agencies in a consulting mode, 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 are not 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.

Since real estate information has been widely dispersed across state agencies, an accurate consolidated real estate database is under development to support 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. It is contemplated 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 continues to be developed, with VITA's consultation, including alternative systems, costs, financing and phasing options. As a first phase of this technology upgrade, the current system, PLATS, is being upgraded to the current release. In addition, a lease scanning project has been completed and the electronic lease images are in the process of being integrated into the PLATS system to allow for a more efficient access.

This real estate initiative is a multi-year process that has gained momentum in 2005 with DRES's formation and organizational ramp up. While

the initial roll out period comes with the usual upfront investments and challenges of a new and innovative program, tangible results have already been achieved as further described below and the long-term benefit is tremendous.

Through November 2005, active portfolio management of leased office space needs statewide, including undertaking competitive lease negotiations using tenant brokers, implementation of new office space standards, and improved leveraging of owned real estate, has resulted in total cost savings and cost avoidance of approximately \$14.932 million on specific leasing transactions. These cost savings and avoidances will be realized over the new terms of various leases and will average \$2.311 million annually. In addition, the disposal of surplus properties has been accelerated by DRES and as of November 2005, 24 properties have closed or are under contract, which will generate total proceeds of approximately \$28.916 million.

Implementation of the real estate initiative is continuing, and will include further development of a body of specific performance standards, but already includes several significant achievements consistent with §2.2-1131.1, as follows:

- **PORTFOLIO MANAGEMENT:** A principal objective of the current initiative is to manage real estate as a single enterprise. By consolidating overall portfolio management within DRES, savings have already been achieved through better leveraging currently owed and leased real estate. DRES has been able to match "excess supply" of space to "new demand" on several occasions by arranging for agencies to transfer space amongst each other in lieu of leasing new space to meet new demands. In one situation alone, cost avoidance totaling \$1.608 million over four and one half years was achieved when DRES arranged for one agency with excess space to make it available to another agency that had a new space need.
- **IMPROVED LEASE TERMS:** As existing leases expire, we are actively conducting market analysis to identify opportunities for better and more flexible lease terms, using expert tenant brokers to represent the Commonwealth's interests. Pro-active negotiations with landlords have resulted in more favorable lease terms, including cost savings in lease payments and/or landlord contributions to tenant improvements. Increased competition on lease renewals have resulted in "incumbent landlords" becoming more aggressive in their attempt not to lose the Commonwealth as a tenant. In one completed transaction alone, an incumbent landlord becoming more aggressive on a lease renewal proposal that will result in cost savings totaling \$3.287 million over the new seven year lease term.

- **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. The space standard is being actively implemented for new space requests as well as in "reconfiguration" studies on existing space. In one situation alone, an agency's downsizing to the new 210/FTE standards that is currently in process will result in over \$400,000 of savings over a new ten year lease term.
- **CO-LOCATIONS:** We have identified several opportunities for co-locating state agencies and are actively evaluating co-location strategies in the major markets of the state. In addition, we have completed the negotiation of a major "umbrella" lease agreement in Richmond where an *ad hoc* co-location of state agencies in the same office park existed. This agreement alone will result in total cost savings of \$1.781 million over the new ten year lease term. Similar negotiations of "umbrella" lease agreements are in process with at least three additional landlords in other areas of the state.
- **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. In one situation alone, DRES's challenging of an agency on the amount of new space they requested resulted in a 50% reduction from their initial request and cost avoidance of \$1.451 million over a new five year lease term.
- **FIT-UP STANDARDS:** New standards have been developed for interior fixtures, finishes and equipment that will provide effective and productive facilities at reasonable cost for owned and leased facilities. Review and negotiation of landlord tenant improvement cost estimates have already resulted in tangible cost savings for several transactions.

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