

The Florida Legislature

OFFICE OF PROGRAM POLICY ANALYSIS AND GOVERNMENT ACCOUNTABILITY



RESEARCH MEMORANDUM

While the State's Leasing Process Uses Reasonable Processes, Centralizing Responsibility for Real Estate Management and Implementing Other Improvements Would Generate Savings

February 24, 2010

Summary

As requested, OPPAGA examined the Department of Management Services (DMS) Lease Management Program, including its oversight of the private space leasing process, the use of tenant brokers in the process, and alternative approaches for state agency leasing activities.

Florida's standardized leasing process requires agencies to follow reasonable practices when leasing space and helps protect state interests. However, the state would benefit if DMS increased the use of tenant brokers, developed a better strategic leasing plan, and improved the Invitation to Negotiate process. In addition, the Legislature could consider two options for modifying the current lease management model to achieve additional savings: (1) centralizing statewide real estate management responsibilities under a state agency or (2) outsourcing statewide real estate management responsibilities.

Background

State agencies occupy state-owned facilities and lease private space to conduct their activities. The Department of Management Services, Division of Real Estate Development and Management operates and maintains buildings in the State Facilities Pool; provides fixed capital outlay and project management oversight of state facility construction and renovation projects; provides for building security and fire safety; and administers facilities bonding and state employee parking programs.^{1, 2} In addition, the department oversees private sector lease procurement oversight and review. As of November 2009, state agencies had 887 private sector leases comprising 8.1 million square feet. In Fiscal Year 2009-10, state agencies will pay \$149.4 million in annual lease payments for privately owned space.

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¹ For Fiscal Year 2009-10, the division was appropriated \$1,738,996 from trust funds and 10 positions for its building construction program; the facilities management program was appropriated \$104.7 million from general revenue and trust funds and 300.5 positions.

² The state facilities pool includes 44 facilities and their associated grounds in Tallahassee and 28 regional facilities across the state.

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Florida uses a partially decentralized leasing model. Florida's current process used to lease private sector space is partially decentralized, with state agencies responsible for identifying their space needs and negotiating with landlords and DMS responsible for overseeing the process and approving all lease agreements.³ Agencies must use standard forms provided by DMS when calculating space needs and establishing lease agreements; these forms are intended to ensure that agencies are consistent in calculating space requirements and use lease terms that contain statutorily-required provisions. For leases under 5,000 square feet, agencies must obtain three documented quotes. Agencies must use a competitive solicitation process to lease space of 5,000 square feet or greater; competitive solicitation refers to a request for proposals, an invitation to bid, or an invitation to negotiate (ITN), with DMS staff reporting that most of these leases are negotiated using an ITN. Agencies may not lease privately owned space when state-owned space is available in the same geographic area unless DMS approves the agency's written statement explaining why the state-owned space does not suit its needs.

State agencies have the option of using tenant brokers for procuring privately-owned space. In January 2008, DMS contracted with three private tenant brokers to provide real estate services—CB Richard Ellis, Inc., Cushman and Wakefield of Florida, Inc., and Vertical Integration, Inc. The tenant brokers can assist agencies in navigating the leasing process, providing knowledge of real estate markets statewide, performing financial analyses, and negotiating lease agreements. DMS and agencies report that tenant brokers generated savings of \$4.5 million during Fiscal Year 2008-09 through negotiations, changes to space usage, and obtaining lower than market rate lease rates. Tenant brokers can receive a commission of up to 4% of the total lease costs, paid by the owner of the property; DMS reports that tenant brokers have received \$1.1 million in commission payments since January 2008. In addition, tenant brokers assist DMS, on an hourly fee basis, with consulting services such as creating plans for reducing excess space and developing financial analyses and recommendations for specific DMS-managed properties. Since January 2008, DMS has paid tenant brokers \$47,175 for such services.

For Fiscal Year 2009-10, DMS has eight staff managing the leasing process; these activities are supported with a \$528,881 budget. Many state agencies also have leasing staff at their headquarters and field offices. As shown in Exhibit 1, state agencies report that 65 employees are responsible for conducting leasing activities. However, many of these agency staff have other responsibilities in addition to leasing, such as procurement and facilities management. For example, although the Department of Children and Families has 13 staff members whose responsibilities include private leasing activities, the estimated percentage of their time spent on leasing is equal to approximately two full-time equivalent positions (FTE). Prorating employee time for leasing activities, the 65 employees' time equates to approximately 23 FTE, at a cost of nearly \$1.4 million for Fiscal Year 2009-10.

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³ Prior to July 2009, the department had approval authority for leased space of 5,000 square feet or more. The 2009 Legislature expanded the department's authority to approve leases of 5,000 square feet or less (Ch. 2009-77, *Laws of Florida*).

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Exhibit 1
State Agencies Will Spend Nearly \$1.4 Million to Conduct Leasing Activities in Fiscal Year 2009-10¹

Agency	Employees with Leasing Responsibilities	Full-time Equivalents Dedicated to Leasing Activities ²	Salaries and Benefits Dedicated to Leasing Activities
Department of Corrections	7	7.000	\$415,543
Department of Revenue	7	5.550	336,732
Department of Children and Families	13	1.950	147,658
Department of Highway Safety and Motor Vehicles	4	1.470	91,405
Department of Health	3	2.500	85,115
Division of Administrative Hearings	2	1.100	63,942
Department of Environmental Protection	2	0.950	55,436
Department of Juvenile Justice	6	0.650	34,058
Florida Fish and Wildlife Conservation Commission	1	0.500	33,263
Department of Legal Affairs	1	0.175	16,903
Department of Elder Affairs	1	0.250	11,250
Agency for Workforce Innovation	2	0.160	9,892
Florida Department of Law Enforcement	2	0.170	9,167
Department of Business and Professional Regulation	2	0.115	8,767
Department of Citrus	3	0.060	8,000
Department of Financial Services	2	0.150	6,390
Department of Agriculture and Consumer Services	1	0.090	6,286
Agency for Persons with Disabilities	1	0.100	5,047
Department of Management Services	2	0.072	4,814
Agency for Health Care Administration	1	0.050	4,086
Department of State	2	0.055	3,289
Total	65	23.117	\$1,357,043

¹ This list includes only agencies that lease private space. The following agencies did not report data on leasing activities: Department of Education, Public Service Commission, and Department of Transportation.

Many states use more centralized leasing models. In contrast with Florida's partially decentralized leasing process, many other states use more centralized systems. We reviewed 24 states' leasing policies and determined that most (19) use a more centralized model.⁴ Each of these states has an

² Some agency staff spend a portion of their time conducting leasing activities as well as other activities, such as procurement and facilities maintenance. This amount represents the equivalent full-time positions based on the total percentage of time devoted to leasing activities.Source: OPPAGA.

⁴ We used responses to a 2009 Connecticut survey on state private leasing to identify 22 of the states: Alabama, Alaska, Arizona, Colorado, Connecticut, Idaho, Indiana, Iowa, Kentucky, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New York, North Carolina, Oklahoma, Oregon, Pennsylvania, Vermont, and Virginia. We selected Ohio because of its similar size to Florida and Georgia because of its proximity to Florida. For each of the 24 states we examined, we reviewed their respective divisions' websites to determine the degree of centralization, if any. We conducted telephone interviews with leasing managers in Minnesota and New York, selecting those states because they appeared to be centralized to a great degree.

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agency similar to DMS that typically has a real estate unit that performs leasing activities for other state agencies. The degree of centralization varies from a real estate unit negotiating all state leases (e.g., Connecticut, Georgia, New York, and Vermont) to a unit being the lease signatory rather than the tenant agency (e.g., Michigan, Minnesota, Ohio, and Pennsylvania). In at least one state (Missouri), the state real estate unit pays agencies' rent. Some states have exceptions from using centralized services for leases in remote locations or for agencies such as courts and universities; in these states such tenant agencies conduct more leasing activities independently.

Staffing of the other states' real estate units range from 1 staff member (Nebraska) to 25 staff members (New York) dedicated to private leasing. Several states use the services of tenant brokers (e.g., Michigan, Montana, New York, and Virginia). In addition, some states including Idaho, Iowa, and Minnesota, report that staff members at tenant agencies serve as liaisons to the real estate units.

Florida's standardized leasing process generally protects state interests

The overall process used by DMS and agencies for leasing privately owned space is standardized, which helps protect the state's interest. This process requires state agencies to use standard forms for requesting space and agreements that specify lease terms. DMS rules also require state agencies to meet specific guidelines for requesting space. Our review of lease files found that agencies are adhering to the use of standard forms and agreements and are generally meeting space requirements. Executed leases are rarely challenged through the Division of Administrative Hearings process.

The leasing process requires agencies to use standardized forms and agreements; our review of lease files shows that agencies are using these forms and adhering to space standards. The current process used to procure private space includes six general steps.

- The state agency submits a request for a specified amount of square footage for a specific number of employees to DMS, using a Space Allocation Worksheet and Request for Space Need.
- DMS reviews and must approve the space need request before the agency seeks space.
- DMS notifies the agency if state-owned space is available or if the agency must seek private space.
- If the agency is to seek private space of less than 5,000 square feet, it must obtain a minimum of three quotes from landlords or, for space of more than 5,000 square feet, use a competitive solicitation process.
- Once private space is selected, the landlord typically conducts space planning and remodeling, if necessary.
- With DMS's prior approval, all parties execute the lease using a standardized lease agreement.

In addition to requiring that DMS and state agencies follow these procedures, state administrative rules direct agencies to limit the amount of leased space to an average 180 square feet per full-time equivalent to the extent possible without sacrificing critical public or client

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services; the average square foot per FTE is calculated using the Space Allocation Worksheet.⁵ Exceptions to this standard include public use space and special use space.⁶ DMS considers this space standard when approving an agency's request for space.

To assess compliance with these requirements, we reviewed a sample of 52 lease files, which were a random sample of lease actions executed since January 2006, including both leases for small spaces (less than 5,000 square feet) and for large spaces (greater than 5,000 square feet). We concluded that agencies are using the department's standardized forms and agreements, including the Space Allocation Worksheet, the Request for Space Need, and the standardized lease agreement. Specifically, we found that 51 of 52 lease files contained these documents. Our analysis also found that space requested by agencies generally conforms to the 180 square foot standard—only 2 of 35 Requests for Space Need we reviewed exceeded this standard. These leases were for a law enforcement agency that may require additional space to ensure physical distance between parole and probation officers and offenders.

Leases executed using the current process are rarely challenged. In the last three years, there has been only one formal administrative protest through the Division of Administrative Hearings to a competitive solicitation for leasing private space. In that case, a landlord filed a petition because it disagreed with the state agency's deeming its bid to be non-responsive; this landlord voluntarily dismissed the petition prior to the administrative hearing. Moreover, leasing managers at seven state agencies comprising 70% of the state's private leases indicated that DMS is responsive to agencies in answering questions about contract provisions and the leasing process.⁸

DMS should increase the use of tenant brokers, develop a better strategic leasing plan, and improve the Invitation to Negotiate process

State agencies have the option of using tenant brokers to assist them in leasing privately owned space. However, agencies generally are not using the private brokers for most leasing activities, despite the cost savings their assistance can generate. The Legislature should direct DMS to take steps to increase tenant broker use. In addition, the Legislature should mandate DMS to improve its statutorily mandated annual strategic plan and master leasing report, which are insufficient to facilitate effective long-term real estate planning, reduce privately leased space, and consolidate state agency space. Finally, the Legislature should direct DMS to improve the Invitation to Negotiate process, which is overly complex and may discourage some landlords from responding to solicitations; streamlining this process could increase competition and reduce leasing costs.

⁵ Rule 60H 2.0021(4)(a), F.A.C.

⁶ Public use space includes reception areas, service counters, and interview rooms. Special use space includes drug laboratories, mailrooms, large conference areas and files rooms, computer rooms, and cafeterias.

We excluded 17 of the 52 lease files from our analysis of square footage because data were not available or type of facility was not applicable to the calculation. Nine Requests for Space Need did not specify square footage per full-time equivalent or appeared to have transposed numbers. In eight cases, agencies were requesting space such as aircraft hangars or warehouses, which primarily house items rather than personnel.

⁸ The seven state agencies are the Department of Children and Families; Department of Corrections; Department of Education; Department of Health; Department of Highway Safety and Motor Vehicles; Department of Juvenile Justice; and Department of Revenue.

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Increase tenant brokers use. Agencies currently are not using tenant brokers for most leasing activities, although these vendors can achieve savings. DMS is not formally tracking or reporting on tenant broker performance or agency satisfaction with broker services.

Since January 2008, eight state agencies have used tenant brokers for only 7% of leases executed (13 of 177 leases executed), although DMS and agencies report that using tenant brokers in these cases saved \$4.5 million during Fiscal Year 2008-09. In some cases, agencies engaged a tenant broker but discontinued their involvement prior to lease finalization because the agencies decided to either remain in their existing location or negotiated the lease on their own. Since January 2008, agencies have discontinued using tenant brokers in 34% of leases in which they began using these services; tenant brokers do not receive compensation when this occurs.

Agency leasing agents give several reasons for their low use of tenant brokers. Primarily, several agencies reported dissatisfaction with the performance and mandatory use of the previous tenant broker (Staubach), and these negative experiences deterred their voluntary use of the current tenant brokers. In addition, some leasing managers believe they have sufficient expertise to manage and negotiate their agencies' space needs and leases and thus do not need to use a tenant broker. Moreover, some leasing managers think that using a tenant broker inflates lease costs to the state, as landlords may add the broker commission to the rental rate.

DMS is not currently conducting agency satisfaction surveys to assess the tenant brokers' services, although Florida law and its contracts with the tenant brokers require the use of customer satisfaction surveys and other information to gauge tenant broker performance. We previously recommended in a 2008 report on state leasing that DMS implement performance measures for the tenant brokers beyond cost-savings metrics. DMS has not taken this step, but reports that it makes regular inquiries with agency staff and brokers about tenant broker performance and agency satisfaction. In 2009, DMS did conduct a survey to collect data for its 2009 *Strategic Leasing Plan* that included one question asking if agencies had used tenant broker services and to describe the experience. However, DMS did not aggregate or report agency responses to this question.

DMS should facilitate the increased use of tenant broker services by notifying the brokers when it approves agencies' Request for Space Need. This would enable the brokers to contact agencies early in the process and offer their services. In addition, DMS should monitor the Department of Revenue's one-year effort to use tenant brokers for all leasing activities. The Department of Revenue took this step to identify ways to reduce its leasing costs. The Department of Revenue plans to monitor and measure each broker's performance over the next year; performance criteria include whether a market analysis was received, whether timelines were set and met, and whether documentation on square footage savings was obtained.

⁹ Workspace Management Initiative Can Benefit State, but DMS Not Taking Adequate Steps to Ensure Goals Are Met, OPPAGA Report No. 06-06, January 2006, identified several problems with the then-tenant broker's performance.

¹⁰ State agencies are required to report the following information to the department: the number of leases that adhere to the workspace standard of 180 square feet per FTE; the quality of space leased and the adequacy of tenant-improvement funds; the timeliness of lease procurement; whether cost-benefit analyses were performed; and the comparison of market rates for similar types and classifications of space.

¹¹ Section 255.25(3)(h), F.S.

¹² DMS Has Improved State Leasing Processes, Additional Performance Measures Needed, Report No. 08-22, April 2008.

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Develop a more useful strategic plan for leasing. State law requires DMS to establish an annual strategic plan that forecasts agency space needs and identifies opportunities for reducing costs by consolidating, relocating, and reconfiguring leased space. DMS also is required to publish a master leasing report with information about leases expiring within 24 months and provide recommendations for strategic consolidation. Although the department publishes these documents as required by law, these plans and reports are insufficient to facilitate effective long-term planning, leased space reduction, or state agency space consolidation.

While DMS's most recent strategic plan and annual leasing report provided some of the information required by state law, these documents lacked specific recommendations for agencies to consolidate leases and reduce excess office space. The strategic plan noted that agencies had achieved \$7.1 million in savings by renegotiating leases, and it included general recommendations (focus on savings from applying space standards and renegotiating rental rates, improve the real estate information system, and implement an Energy Management Plan). However, it described no actionable items to improve the state leasing process other than suggesting further evaluation of the process. Similarly, while the master leasing report provided information on leases expiring within the next 24 months and real estate conditions in the state's major markets, DMS did not specify which agencies with expiring leases could consolidate and reduce excess office space.

DMS managers indicate that they need to collect additional information on agency space usage in order to implement the recommendations in the department's 2009 strategic leasing plan and identify space that could be reduced and specific, cost-effective methods for doing so. The department also asserts that it lacks a system to maintain the data it would collect if it conducted the review. In addition, DMS staff report that they do not have sufficient authority to direct agencies to co-locate or adopt other space reduction strategies.

The data that DMS currently collects on agency space usage are not reported consistently by state agencies. Agencies are required by state law to submit information about programs affecting their need for or use of space. Specifically, s. 255.249(3)(d), *Florida Statutes*, requires that

by June 30 of each year, each state agency shall annually provide to the department all information regarding agency programs affecting the need for or use of space by that agency, reviews of lease-expiration schedules for each geographic area, active and planned full-time equivalent data, business case analyses related to consolidation plans by an agency, a telecommuting program, and current occupancy and relocation costs, inclusive of furnishings, fixtures and equipment, data, and communications.

The department sends a survey to each agency to collect the required information. DMS staff report that agencies are generally providing this information on time, but it is not always complete and up-to-date.

¹³ Florida law states that the department shall develop and implement a strategic leasing plan. The strategic leasing plan shall forecast space needs for all state agencies and identify opportunities for reducing costs through consolidation, relocation, reconfiguration, capital investment, and the building or acquisition of state-owned space (s. 255.249 (3)(b)), *F.S.*

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To improve DMS's ability to identify and recommend opportunities for reducing privately leased space, we recommend that the Legislature mandate DMS to develop more comprehensive data collection protocols and require agency administrative services directors and/or their leasing agents to submit the information required by s. 255.249(3)(d), *Florida Statutes*, by June 1, or face penalties such as required appearances before the Legislative Budget Commission explaining their failure to provide the required data.

In addition, we recommend that the Legislature amend s. 255.249, *Florida Statutes*, to require DMS to provide specific recommendations in its strategic leasing plan for privately leased space consolidation and/or reduction. For example, DMS could be required to identify consolidation opportunities for agencies with expiring leases within geographic areas such as Miami-Dade and Leon Counties. DMS could use tenant broker services to assist with identifying and implementing these opportunities.¹⁴ In addition, we recommend that the Legislature require agencies, in their Legislative Budget Requests, to report on their efforts to implement DMS recommendations or specific reasons for not implementing them.¹⁵

Streamline the Invitation to Negotiate process. When agencies use the invitation to negotiate process, landlords that wish to submit bids must provide a number of specifications in their responses, including floor plans, a list of services provided, and an acceptable energy performance index in order for their bid to be deemed responsive. Agency leasing managers and tenant brokers report that this process is complex and time-consuming and that the amount of paperwork can be overwhelming for potential bidders and may discourage some landlords from responding to solicitations. These factors may result in reduced competition, which may lead to higher leasing costs. These managers and brokers suggest several potential improvements to the process. Specifically, they suggest that DMS should

- create a website or modify its existing website where bidders could access all ITN documents and print one page acknowledging that they have read them, alleviating the need to print numerous pages;
- implement a prequalification process for potential landlords, eliminating the need to initially complete all sections of the ITN; and
- provide an updated leasing reference manual for agencies that includes information on the use of ITNs.

We recommend the Legislature direct DMS to implement these steps. DMS managers reported that the department plans to respond to these suggestions by encouraging agencies to advertise competitive solicitations for leased space in the DMS Vendor Bid System and encouraging potential bidders to register in MyFloridaMarketPlace as providers of leased space. In addition, DMS officials reported that they could update the DMS leasing manual once current administrative rules related to leasing are finalized.

¹⁴ These services are currently provided for in contracts between the department and the three tenant brokers. DMS staff report that tenant brokers collected and provided market data used for the 2009 master leasing report.

Agencies raised concerns about their ability to co-locate with other agencies in some circumstances because of specific requirements. For example, the Departments of Corrections and Juvenile Justice cannot co-locate because adult offenders cannot be within a certain proximity to juveniles. In addition, some agencies require that their offices be accessible to clients that use public transportation, whereas other agencies do not have such requirements.

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The Legislature could consider modifying the current lease management model to achieve additional savings

While the leasing process provides assurance that agencies are following required procedures when leasing space, it does not maximize potential savings in this process. We identified two options the Legislature may wish to consider for improving the state's real estate management process.

- 1. Centralize statewide real estate management responsibilities under a state agency.
- 2. Outsource statewide real estate management responsibilities to a private vendor.

Option 1 – Centralize statewide real estate management authority under a state agency. Under this option, the Legislature would amend Ch. 255, Florida Statutes, to centralize real estate management authority, including leasing, within DMS or another state agency. Using this model, the designated agency would be responsible for statewide real estate management activities (e.g., operating and managing the state facilities pool, administering the state employee parking program) as well as most leasing activities, including locating appropriate space and negotiating and executing lease agreements. Two agencies in addition to DMS could fill this role, which would be most appropriate for agencies that currently have enterprise-wide or real estate management responsibilities. The Department of Financial Services has a variety of enterprise-wide functions, including accounting for all state funds. The Department of Environmental Protection currently manages land and facilities throughout the state and manages leases for state parks, forests, and wildlife management areas.

A primary advantage of this option is that centralization could provide a more strategic statewide approach to real estate management. It would enable a single entity to monitor statewide market conditions and the state's overall leased real estate portfolio, which could enable the state to better identify and implement opportunities for reducing space and associated costs. example, the centralized entity could identify opportunities to consolidate multiple small leases into single lease agreements. The option would also generate savings by reducing the number of staff performing leasing and other real estate activities. Currently, 65 state agency staff are responsible for conducting leasing activities. While these staff members often have other responsibilities such as procurement and facilities management, they equate to approximately 23 FTE devoted to leasing activities. This option would enable a single agency to assume most leasing functions, substantially reducing the need for individual agency leasing staff. Agencies gave mixed perspectives on this option. Some reported that they could reduce staff if leasing activities were centralized, while others contended that they would need to retain some leasing staff with detailed knowledge of agency programs and space needs to serve as liaisons between their agency and DMS and the tenant brokers. DMS managers and current tenant brokers indicated that agencies likely would require some portion of their current leasing staff to coordinate leasing activities, but estimated that these responsibilities would require only 1.2 FTE across all agencies.

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While DMS managers asserted that the department would need an additional 19.1 full-time equivalent staff to perform duties under a centralized model, we believe this estimate is highly inflated. If the Legislature wishes to designate an agency other than DMS as the central leasing agency, it may wish to obtain a staffing needs estimate from the agency. Also, as discussed below, centralizing lease responsibility could enable the state to make much greater use of the tenant brokers to reduce the need for leasing staff. Increasing tenant broker utilization under a centralized model would require amending Ch. 255, *Florida Statutes*, and the state's tenant broker contracts to allow a centralized state real estate manager to engage these services on behalf of agencies.

Option 2 – Outsource statewide real estate management responsibilities. Under this option, the Legislature would amend Ch. 255, *Florida Statutes*, to centralize real estate management authority and specify that this function be outsourced to an entity that would administer the statewide leasing program as well as manage the state facilities pool and administer the state employee parking program.

The tenant brokers currently under state contract are full-service real estate management companies capable of providing many services currently performed by DMS and state agencies. For example, Cushman & Wakefield, a global corporation, provides a wide range of facilities management, lease administration, and project management services. Similarly, Vertical Integration, a Florida-based vendor, provides real estate brokerage, strategic facilities and portfolio planning, project management, and design and space utilization services. Accordingly, the tenant brokers could provide many of the real property management services provided by DMS as well as coordinate the state's overall leasing activities.

As with Option 1, centralizing and outsourcing real estate management would generate savings by reducing the number of agency staff conducting leasing and other real estate activities. In addition, it would enable the state to achieve economies of scale, leverage its leasing power, and enable the state to take a more strategic statewide approach to real estate management. It would be critical for the state to establish an effective contract management process to ensure that the tenant brokers provide cost-effective services that meet agency needs.