



COMMONWEALTH of VIRGINIA

Philip A. Leone
Director

Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building, Capitol Square
Richmond, Virginia 23219

(804) 786-1258

June 4, 2008

MEMORANDUM

TO: Philip A. Leone

FROM: Robert B. Rotz, Senior Division Chief ^{RBR}

SUBJECT: DGS's Submission of an Implementation Plan and Rate Requests for the Division of Real Estate Services

On May 21, 2008, the Department of General Services (DGS) submitted a plan for implementing an internal service fund that would be sufficient to finance the costs of its Division of Real Estate Services (DRES). Item 79 of House Bill 30 (reenrolled) of the 2008 General Assembly provides that "this appropriation includes an internal service fund to support a program of Real Estate Services" at DGS, and notes that the fund may include "rent payments or fees to be paid by state agencies and institutions for their occupancy of facilities... including but not necessarily limited to, leases of nonstate owned office space..." The item notes that surcharge rates would be approved by JLARC. DGS's implementation plan contains a proposal for the fees that would be charged to leasing agencies.

DGS states that DRES is currently administering 210 agency leases from 14 agencies and plans to bring another 188 leases from 36 agencies under its lease administration process. In order to recover its costs, DGS is estimating that it needs to charge a fee of 3.25 percent for single agency leases and a fee of 5 percent for master leases. (The fee percentage represents the percentage of the lease payment that is made to the landlord). The fee percentage is higher for master leases because these leases are more complicated. DGS anticipates about \$2.1 million in DRES costs in each of the two years of the upcoming biennium and estimates that these fee percentages will yield about \$1.9 million per year in funds for DRES. When this amount is combined with \$78,000 in proposed one-time transaction fees and a \$200,000 broker commission rebate, the annual funding estimated by DGS is enough to cover costs with about \$100,000 per year in reserve.

Attached is a copy of a June 3, 2008 letter from DGS requesting JLARC approval consideration for its rate requests related to this internal service fund, and also a copy of the DGS implementation plan. In addition, DGS staff will be present at the June Commission meeting to respond to any questions which commission members may have about the internal service fund as proposed.

Attachment



COMMONWEALTH of VIRGINIA

Department of General Services

Richard F. Sliwoski, P.E.
Director

Joseph F. Damico
Deputy Director

Bobby Myers
Deputy Director

Mr. Philip A. Leone, Director
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June 3, 2008

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Dear Mr. Leone:

The Department of General Services respectfully submits the attached Division of Real Estate Services internal service fund rate request to the Joint Legislative Audit and Review Commission for approval consideration.

The Division of Real Estate Services (DRES) was established in 2004 to consolidate activities associated with real estate transactions by state agencies and institutions. The 2005 Virginia Acts of Assembly – Chapter 951 authorized an internal service fund to support a program of Real Estate Services. During the 2008 session of the General Assembly, the DRES internal service fund language was amended to address costs associated with surplus property sales, establishing the internal service fund costs (inclusive of rent payments to Landlords), and DPB's authorization to transfer DRES General Funds (GF) to agencies that will pay DRES fees with agency GFs.

Specifically, DGS seeks the Joint Legislative Audit and Review Commission's approval of the following:

- Single Agency Leases: charge agencies a 3.25% fee for each single agency lease managed by DRES. Fee amount will equal 3.25% of the total lease expense. Details for FY09 agency charges provided in rate package.
- Master Leases: charge agencies a 5% fee for those leases where several agencies are occupying leased space under a single (master) lease agreement. Fee amount will equal 5% of an agency's portion of the total lease amount. Details for FY09 agency charges provided in rate package.
- Proposed "one-time" transaction fees for various other services, other than single and master transactions, offered by DRES. Such services include easements, interagency transfers, administering appraisals, and other conveyances. Details of "one-time" transaction fee schedule provided in rate package.

Sincerely,


Richard F. Sliwoski, P. E.

Department of General Services

Implementation Plan

Internal Service Fund to Finance the Division of Real Estate Services

May 21, 2008

May 21,
2008

Division of Real Estate Services Overview

The Division of Real Estate Services was established in 2004 to consolidate activities associated with real estate transactions by state agencies and institutions. The consolidation strategy was recommended by an independent contractor contracted to study the Commonwealth's management of its owned and leased real estate assets. The study was a recommendation of the Wilder Commission. The study found, among other things, that a more centralized approach to managing the Commonwealth's real estate assets (leased and owned) was needed in order to create a single base of knowledgeable, experienced real estate professionals to handle the Commonwealth's significant portfolio and to exploit cost saving opportunities such as co-location of agencies.

Executive Order 75(04) directed the establishment of an integrated real estate portfolio management system for agencies and institutions of the Executive Branch. The "management system" resulted in the establishment of the Division of Real Estate Services (DRES). Executive Order 75(04):

Directs the establishment of an integrated real estate portfolio management system for the agencies and institutions of the Executive Department, based on the following enterprise-wide goals:

- *Increase co-location and bargaining power*
- *Decrease total and per-person space allocations*
- *Reduce total costs*
- *Maintain agency security and operational needs*
- *Augment or maintain agency functional space and real property services*

In addition to working towards accomplishing EO75 goals, DRES provides expanded services that include:

- *Publication of guidelines for the conduct of transactions*
- *Identify and provide information on available properties.*
- *Strategic portfolio management*
- *Preparation and administration of the solicitation process to located available property*
- *Space programming/planning*
- *Financial modeling*
- *Negotiations*
- *Drafting of Legal Instruments*
- *Provide advice and assistance in delegated transactions (e.g., purchases, transfers, easements)*

- *Surplus real property disposal*
- *Real estate information systems*
- Leasing services provided by DRES include:
 - *Identification of requirements: term expiration, size or location change, co-location opportunities*
 - *Development of space programs, validation against standards, preparation of plans*
 - *Enforcement of a 205 usable square feet per person limit, based national averages and best practices.*
 - *Coordinate requirements among multiple agencies to develop co-location facilities.*
 - *Issue of solicitations and evaluation of responses*
 - *Negotiate lease terms*
 - *Create lease documentation*
 - *Coordinate tenant improvement construction*

To date, DRES has undertaken administration of 210 agency leases from 14 agencies. By August, 2008, DRES plans to bring another 188 leases from 36 agencies under its lease administration processes. Like real estate transactions, this component of real estate management deserves and will benefit from oversight by experienced and knowledgeable real estate professionals. DRES Lease Administration services include:

- *Establish lease payment schedule*
- *Verify payments for rent and operating expenses conform to lease terms*
- *Conduct audit of Landlords operating expenses as required*
- *Escalate issues of maintenance and operation that cannot be resolved locally*
- *Provide forecasts of future rent obligation to each agency*
- *Provide analysis of facility utilization efficiency*

DRES has also recently implemented an automated information real estate management system. The system is an Integrated Real Estate Management System (IREMS) which combines a database for portfolio management and reporting, and modules for lease administration, transaction management and space management. The system is web based and can be accessed by the client agencies and institutions. As agencies receive training they will be able to review their portfolio of state owned and leased facilities and generate reports on space utilization and cost. IREMS will be used by DRES in day to day management of transactions. Agencies will be able to monitor progress of transactions and participate in the review of candidate locations , The on-line database will eliminate the need for agencies to maintain separate real estate records. IREMS will become the one trusted source for all real estate data for the Commonwealth.



Establishment of an Internal Service Fund

The 2005 Virginia Acts of Assembly – Chapter 951 authorized an internal service fund to support a program of Real Estate Services, see provided language:

Item 77:

D.1. The Physical Plant Acquisition and Construction program includes an internal service fund to support a program of Real Estate Services. This internal service fund may include rent payment or fees to be paid by state agencies and institutions for their occupancy of facilities and for the agency's management of real property transactions, including, but not necessarily limited to, leases of non-state owned office space throughout the Commonwealth for use by such agencies and institutions. In implementing the program, the department may utilize brokerage services, portfolio management strategies, personnel policies, and compensation practices generally consistent with prevailing industry best practices. The Joint Legislative Audit and Review Commission shall review this program as provided in § 2.2-1101 of the Code.

During the 2008 session of the General Assembly, the DRES internal service fund language was amended to address costs associated with surplus property sales, establishing the internal service fund costs (inclusive of rent payments to Landlords), and DPB's authorization to transfer DRES General Funds (GF) to agencies that will pay DRES fees with agency GFs. 2008 budget language is provided:

Item 79 of House Bill 30 (reenrolled) of the 2008 General Assembly provides:

A. This appropriation includes an internal service fund to support a program of Real Estate Services. This internal service fund may include rent payments or fees to be paid by state agencies and institutions for their occupancy of facilities and for the agency's management of real property transactions, including, but not necessarily limited to, leases of nonstate owned office space throughout the Commonwealth for use by such agencies and institutions. Also included are funds to pay costs associated with the disposal of state owned real property and interests therein. The costs paid for each sale shall be returned to the fund upon sale of the property in an amount calculated at 115 percent of such costs. The estimated cost for this service area is \$59,200,000 the first

year and \$59,200,000 the second year. In implementing the program, the department may utilize brokerage services, portfolio management strategies, personnel policies, and compensation practices generally consistent with prevailing industry best practices.

B. The Director, Department of Planning and Budget, is authorized to transfer general fund appropriations from this Item to agencies paying the Department of General Services' real estate service charges from general fund appropriations based on real estate surcharge rates approved by the Joint Legislative Audit and Review Commission.



Program Funding

Funding will come from a combination of fees:

- Single Agency Leases – Simplest to set up and administer. Some opportunity for economies. Fee 3.25% of lease payments to Landlord. Estimated total fees: \$1,565,677
- Master Leases – Several agencies occupying discrete spaces under a single lease. Most complex to negotiate and administer requiring more DRES staff time, but results in greatest economic benefit. Fee 5% of lease payments to Landlord. Estimated total fees: \$364,617

Agency	Single Agency Lease - Annual Expense	3.25%	Master Lease - Annual Expense	5%	FEE TOTALS
123 - DMA	376,511.76	12,236.63		-	12,236.63
127 - DEM	487,587.24	15,846.59		-	15,846.59
136 - VITA	-	-		-	-
137 -VITA	-	-		-	-
141 - ATG	164,863.44	5,358.06		-	5,358.06
154 - DMV	5,773,973.64	187,654.14			187,654.14
156 - VSP	1,281,853.68	41,660.24	43,341.84	2,167.09	43,827.34
161 - TAX	2,613,830.28	84,949.48	57,600.00	2,880.00	87,829.48
163 - VDA		-	145,782.84	7,289.14	7,289.14

Agency	Single Agency Lease - Annual Expense	3.25%	Master Lease - Annual Expense	5%	FEE TOTALS
165 - DHCD	784,227.96	25,487.41	21,141.00	1,057.05	26,544.46
175 - VOPA		-	16,855.80	842.79	842.79
181 - DOLI	296,685.96	9,642.29	116,180.28	5,809.01	15,451.31
182 - VEC	3,539,677.48	115,039.52	151,101.72	7,555.09	122,594.60
191 - WCC		-	86,941.44	4,347.07	4,347.07
194 - DGS	650,681.52	21,147.15			21,147.15
199 - DCR	205,739.64	6,686.54	96,099.00	4,804.95	11,491.49
201 - DOE		-	5,602.80	280.14	280.14
214 - LU	228,808.32	7,436.27			7,436.27
222 - DPOR		-	702,920.40	35,146.02	35,146.02
223 -DHP		-	1,103,385.24	55,169.26	55,169.26
226 - BOA		-	42,411.96	2,120.60	2,120.60
232 - DMBE	-	-	96,993.00	4,849.65	4,849.65
236 - VCU VISTA		-	234,958.20	11,747.91	11,747.91
247 - GMU		-	9,254.28	462.71	462.71
262 - DRS	2,234,043.96	72,606.43	1,895,907.48	94,795.37	167,401.80
282 - PVCC		-	9,389.52	469.48	469.48
301 - VDACS	111,480.60	3,623.12		-	3,623.12
310 - VEDP	-	-		-	-
325 - DBA	303,752.16	9,871.95		-	9,871.95
402 - MRC	301,528.87	9,799.69		-	9,799.69
403 - DGIF	375,112.92	12,191.17		-	12,191.17
405 - VRC	27,241.08	885.34		-	885.34
409 - DMME	84,469.92	2,745.27		-	2,745.27
411 - DOF	56,911.92	1,849.64		-	1,849.64
423 - DHR	295,972.35	9,619.10		-	9,619.10
425 - JYF	-	-		-	-

Agency	Single Agency Lease - Annual Expense	3.25%	Master Lease - Annual Expense	5%	FEE TOTALS
440 - DEQ	3,817,323.72	124,063.02		-	124,063.02
501 - VDOT	3,990,336.00	129,685.92	25,333.80	1,266.69	130,952.61
505 - DRPT	251,998.43	8,189.95		-	8,189.95
506 - MVDB	72,977.16	2,371.76		-	2,371.76
601 - VDH	2,040,693.96	66,322.55	243,745.08	12,187.25	78,509.81
602 - DMAS	1,529,150.88	49,697.40		-	49,697.40
701 - DOC	8,114,262.72	263,713.54		-	263,713.54
702 - DBVI	43,560.00	1,415.70	139,603.68	6,980.18	8,395.88
711 - VCE	-	-		-	-
720 - DMHMR&SAS	-	-		-	-
750 - DCE	7,875.00	255.94		-	255.94
751 - VDDHH	-	-	94,767.24	4,738.36	4,738.36
762 - DRVD	19,380.12	629.85		-	629.85
765 - DSS	6,205,000.32	201,662.51	1,147,949.40	57,397.47	259,059.98
777 - DJJ	714,229.74	23,212.47	36,549.96	1,827.50	25,039.96
848 - IDC			- 82,852.80	4,142.64	4,142.64
912 - DVS	72,726.96	2,363.63	50,596.80	2,529.84	4,893.47
937 - SVHEC	556,020.00	18,070.65		-	18,070.65
938 - NCU	91,383.60	2,969.97			2,969.97
960 - DFP	289,440.00	9,406.80		-	9,406.80
962 - DERC	91,307.52	2,967.49		-	2,967.49
963 - VLO	72,044.28	2,341.44		-	2,341.44
T J PLANNING DIST			- 69,069.00	3,453.45	3,453.45
DCG			- 20,783.40	1,039.17	1,039.17
778- DFS	-	-	545,220.00	27,261.00	27,261.00
Total	48,174,665.11	1,565,676.62	7,292,337.96	364,616.90	1,930,293.51

- Brokerage Commission Sharing – These are funds shared between DRES and its contractor broker from commissions paid by private Landlords to the contractor. Commission share is based on a percentage of total commissions earned by the contractor. Estimate commission share: \$200,000
- Proposed One-time Transaction Fees – these are fees paid by agencies to DRES for various real estate one-time transactions.

TRANSACTIONS	Est.Number FY09	Avg. Hours	Fee	Est Income FY09
Easements (benefit of COV)	20	8	\$200	\$4,000
Acquisition (purchase, gift, devise)	30	40	\$1,000	\$30,000
Expense Lease (not admin by DRES)	60	20	\$250	\$15,000
Residential Income Lease	5	15	\$200	\$1,000
Interagency Transfer	5	8	\$200	\$1,000
Temp Transfer	5	16	\$200	\$1,000
Administer Appraisal Process	50	6	\$200	\$10,000
Conservation Easements (CO only)	10	2	\$100	\$1,000
Income Lease (commercial) (1% of value, \$1000 minimum)	5	40	\$1,000	\$5,000
Other Conveyances	5		\$1,000	\$5,000
Easement (benefit others)	5	20	\$1,000	\$5,000
Sales	115% of costs as provided by law.			
Total	200			\$78,000

DRES Budget 2009 & 2010

- Estimated Cost of Services (\$2,109,566)
(\$1.7M employee costs, \$.4M facilities, IT etc.)
- Broker Commission Rebate (EST) \$ 200,000
- Internal Service Funds (EST)
 - Single Agency Leases @ 3.25% \$ 1,565,677
 - Master Leases @ 5% \$ 364,617
 - Transaction Fees \$ 78,000

IV

Implementation

The information in this report and our intentions to begin charging fees has been communicated to agencies. The Department of General Services (DGS) hosted an agency roundtable meeting on March 26, 2008, to review DRES funding options and for DGS to address agency questions regarding the proposed internal service fund model.

In April 2008, agencies were surveyed by DRES requesting information, including current agency lease payment information, to enable DRES to develop its internal service fund rates. On April 30, 2008, DRES held another agency roundtable meeting. The DGS director opened the meeting addressing the internal service model DRES would be implementing and that rates would take the form of a percentage up charge on agency lease payments.

On May 16, 2008, DRES sent its May 2008 newsletter to agency real estate contacts announcing that DRES would be presenting its rate package to the Joint Legislative Audit and Review Commission for consideration at the Commission's June 2008 meeting.

Provided JLARC approves the submitted internal service fund rates, DRES will publish the rates on its web-site and include the rate information in its next newsletter. In addition, DRES will discuss rates at its next roundtable meeting.

DRES will IAT agencies on a monthly basis or on other payment terms as agreed to between DRES and an agency.