PED Response to DOA Formal Response

Based upon the North Carolina Department of Administration response to this report, it is apparent that the department by policy and practice has not asserted its authority nor accepted responsibility for facilities and real property management in state government. Previously, the Program Evaluation Division has reported similar inefficiencies in state government functions over which the Department of Administration was responsible, shared responsibility, or could have taken more initiative. [55]

DOA Response, Page 1, paragraph 2: *DOA feels compelled to comment on several of the findings and recommendations contained in the report (highlighted in bold type) since some of the information, findings and recommendations are inaccurate, incomplete and misleading relative to the activities, responsibilities and efforts of the State Property Office.*

Program Evaluation Division Response: As part of the PED evaluation process DOA had the opportunity to review a preliminary draft of the report and provide a technical response. The purpose of the technical response is to provide concrete examples of errors, omissions, and inaccuracies of fact. DOA chose not to provide the evaluation team with a technical response.

DOA Response, Page 2, paragraph 3: *The General Assembly should direct the DOA to develop and implement a strategic facilities plan and a performance management system for the State's portfolio of real property.*

This component of Recommendation I fails to recognize the responsibilities of agencies in the development of a strategic facilities plan. Agencies are delegated the responsibility for their legislative programmatic functions and responsibilities. Therefore, the responsibility for defining programmatic requirements rests with the individual agencies. Agencies are in the best position of determining the resources required to meet their mission. The State Property Office is not in a position to evaluate or judge a given agency's program or mission dependency of real property to support that mission.

Program Evaluation Division Response: As part of Recommendation 1, page 35 of the report states, “The General Assembly should direct DOA to develop and implement a statewide strategic facilities plan and a performance management system for the State’s portfolio of real property.” The SFP should be based on agency-level facility management plans. The recommendation does not require DOA to evaluate or judge a given agency's programmatic needs or its determinations of the mission

[55] Program Evaluation Division Reports:

- *Motor Fleet Management Uses Best Practices, but Needs Telematics to Strengthen Accountability* (March 2012).
- *Ineffective Policies and Diffuse Oversight Result in Inefficient Use of State-Owned Vehicles* (April 2012).
- *Options for the Indian Cultural Center Will Allow the Site to Meet its Cultural, Recreational, and Economic Development Intent* (December 2012).
- *North Carolina Does Not Track Lands Submerged under Navigable Rivers or Know the Extent of Private Claims* (January 2013).
- *Addressing Deficiencies in State Purchasing and Contracting,* Program Evaluation Division Activities and Accomplishments, 2008–2014, March 23, 2015, page 30.
- *North Carolina Should Eliminate the Use of Personal Services Contracts in Favor of Using Existing Mechanisms* (February 2015).

dependency of real property assets. The recommendation suggests the strategic plan should

- identify the type, quantity, and location of spaces required to fully support state government operations,
- include an in-depth analysis of existing facilities' locations, capabilities, utilization, and condition, and
- establish statewide strategic priorities and objectives.

DOA Response, Page 2, paragraph 3: *Lack of an overall statewide strategic plan and goals is an outcome of the budgeting process and management responsibilities delegated to individual agencies.*

Program Evaluation Division Response: As stated in Finding 3 on page 25 of the full report, the Strategic Facilities Plan is a necessary portfolio management tool because it identifies the type, quantity, and location of spaces required to fully support an organization and includes an in-depth analysis of existing facilities' locations, capabilities, utilization, and condition. DOA is charged with the duties and responsibilities associated with real property control and oversight. PED asserts portfolio management is a function of real property control and oversight.

DOA Response, Page 3, paragraph 2: *The Department certainly can adopt the methodology and criteria for "utilization" that is employed by FRPC and add a field to the database for this element.*

Program Evaluation Division Response: Recommendation 1 on page 36 of the report does not reference the Federal Real Property Council (FRPC). The recommendation states the General Assembly should require DOA to publish an annual report on its portfolio of real property. This report should include but not be limited to providing the following information:

- updates and progress on goals and objectives established by the strategic facilities plan;
- trends in the real property inventory for leased and owned buildings and structures, including changes in value, square footage, and operation and maintenance costs;
- trends in the inventory for state-owned land including changes in acreage and value;
- allocation of leased and owned space by facility type by agency and county;
- benchmarks for comparable private sector leases across the regions of the State for both rural and urban locations; and
- an analysis of utilization targets and a list of owned and leased buildings and structures identified as unused or underutilized.

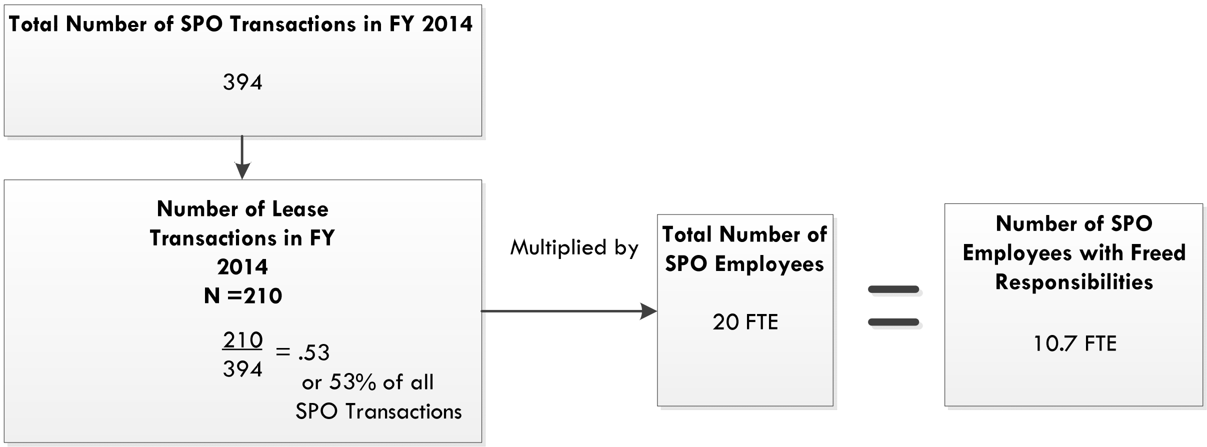
DOA Response, Page 4, paragraph 3 & 4: *Department disagrees with the conclusion of outsourcing acquisition transactions as referenced in the report in order to free up existing staff. The idea that outsourcing lease transactions to a commercial real estate firm similar to that employed by the Georgia State Property Commission will he at no cost to the state is simply not accurate. The State Property Office is unaware of any real estate broker or real estate sales person that works for free. The real estate commissions landlords pay to a tenant representative are added to the lease rate charged. Therefore, there will be an increased cost to the State that will be absorbed and reflected in the lease rate. North Carolina has extensive experience in this area. Under a pilot program in 2005, over a 17 month period using a tenant representative, the 100 leases handled by the tenant representative were $.90/sf higher than the rates State Property Office achieved for the 73 leases the State Property Office completed during the same period. In response to two surveys sent out to landlords and agencies, only 28% of all agencies, 0% of major agencies, and 30% of landlords believe the tenant representative had added value to the State's leased process. Responses to other questions in the survey were likewise unfavorable regarding the tenant representative performance.*

Program Evaluation Division Response: In order to independently confirm these findings, PED requested the data used to generate the cost comparisons; however, DOA failed to provide data to perform the analysis. PED has concerns about the conclusions DOA has drawn from its cost comparison analysis because many of the 73 leases retained by DOA during the trial period were leases with other government entities. It is reasonable to assume that intergovernmental lease rates would be lower than private market lease rates. Because DOA did not comply with our request to provide these data, PED could not confirm this assumption.

DOA Response, Page 4, paragraph 5 & 6: *The Department strongly disagrees with the PED report that no additional personnel or resources are required to meet the duties and responsibilities contained in the components of Recommendation l. Previous studies have indicated a requirement of 15 additional staff and nearly $600,000 (in 2006 dollars) just for implementation of the real property disposal system alone. This does not reflect the additional requirements of the directives to the Department contained in Recommendation l.*

PED estimated that outsourcing leasing transactions would free up an estimated 10.7 FTE within the State Property Office for other functions. The math is interesting given that the entire staff in the State Property Office devoted to leasing transactions consist of 4 FTE.

Program Evaluation Division Response: The State Property Office is a transaction-based office. PED calculations focused on personnel resources across the entire office that would be freed up by outsourcing lease transactions. Our analysis of acquisition and disposal transactions shows the following:



DOA Response, Page 5, bulleted section: *The General Assembly should direct the Department of Administration (DOA) to modify the database to include the following data elements:*

- *Location (including the latitude and longitude of the center of the building or parcel of real property): This data element is already included in the building asset database. It would be redundant to keep this as a data element in the real property table since the State Property Office already maintains a spatial database (GIS) for real property.*
- *Utilization: This data element already exists in report form in the Agency Utilization Survey and can be added to the database.*

Program Evaluation Division Response: DOA is correct; location, in terms of physical street address, is an element captured by the inventory database. However, 267 assets listed show no record of a street address. Furthermore, the spatial data mentioned in the response is limited to land assets and does not provide latitude and longitude information for state-owned buildings and leases. PED has concerns with incorporating the data from the utilization survey into the database because the utilization survey data are outdated; as the response states, this questionnaire was conducted in 2007. Furthermore, the utilization data is inadequate because utilization was not captured as a quantifiable measure. Lastly, the survey was incomplete because it was only piloted across four agencies.

Page 37 of the report recommends the General Assembly require DOA to develop a standardized procedure for measuring utilization of buildings and structures. PED recommends procedures for utilization measurement should be based on the percentage of usable square feet assigned, storage used, or other trade industry standards for the various types and uses of leased and owned space and should provide a ratio or index of used and unused space. These data would be reported to DOA annually and would ensure standardized collection of quantifiable utilization rates statewide.

DOA Response, Page 6, last paragraph: *Although it may not have been readily apparent to PED, State Property does review informally for available State-owned space prior to initiating an advertisement for leased space. It should be noted that even if there is vacant state-owned space, it may not be feasible or practical to relocate an agency from leased space to state-owned space.*

Program Evaluation Division Response: Informal review for state-owned space is inadequate given DOA is **formally** charged in statute with the control and oversight of real property. Furthermore, without quantifiably tracking utilization, formal or informal review is inconclusive. Lastly, a review of State Property Office documents shows there are not policies or procedures in place to ensure that the review for available state-owned space is standard and consistent.

DOA Response, Page 7, paragraph 2: *The report indicated that the State Property Office does not compare performance against the private sector and notes that GSA partners with the Logistic Management Institute to measure and analyze leasing performance relative to industry. Although the Logistic Management Institute is a non-profit, there can be a substantial charge for their services. If the General Assembly feels that benchmarking against the private sector is critical, the Department would welcome appropriations to cover the contractual cost for such services. State Property essentially benchmarks every time a lease is advertised. Responses to lease Request for Proposals (RFP) are compared to current lease rates in effect. The State Property Office has the authority to enter into multi-year leases and negotiate with proposers to obtain the lowest price possible. For informational purposes, the State Property Office prepared the following:*

Comparison of Lease Rates in the Raleigh Area

Entity	**Measurement**	**# of Leases**	**Full Service Rate**
State of NC	Net	107	$16.12 ($15.31)[1]
Private	Rentable	308	$17.03[2]
GSA	Rentable	23	$21.69[3]

Conclusion: For Benchmarking purposes the State rate is $1.72/SF lower than the Private Raleigh Office market and $6.38/SF lower than the GSA office locations in Raleigh.

[1] The rate of $16.12/net SF comes from the "inside/outside" report dated June 1, 2015 and represents office leases inside the Capital area. Net measurement standard used by the State reflects an approximate 5% efficiency compared to rentable measurements. Therefore, the State rate of $16.12/net SF has been reduced to $15.31 for comparison purposes.

[2] Numbers from "SPACE", 1"' Quarter 2015, a publication of Triangle Business Journal, for private office space in 11 submarkets in Raleigh. Buildings rated B&C since the average building leased by the State is rated B-.

[3] GSA leased Raleigh office locations as of April2015. GSA estimates occupancy at 28.1 %.

Program Evaluation Division Response: PED was not given the opportunity to review this information because DOA did not provide it prior to submitting its formal response. The information provided in the table above reflects the type of data and information that agencies typically provide as part of their technical responses, which DOA chose not to provide. As a result, PED could not evaluate or confirm the information provided. Furthermore, PED has concerns about the conclusions drawn from the analysis as evidence of benchmarking because DOA only includes office leases inside the capital area. The comparison does not take into account leases in other areas of the state or leases for other types of facilities such as storage spaces. As stated in Recommendation 1 on page 39 of the report, PED recommends the General Assembly direct DOA to actively manage the State's portfolio of real property, which includes benchmarking for comparable private sector leases across the regions of the state for both rural and urban locations. PED does not recommend DOA outsource this oversight activity. Given that DOA was able to provide partial benchmark comparisons for purposes of the agency's formal response, PED is confident DOA would be able to scale this effort to leases across the regions of the state for both rural and urban locations for annual reporting purposes.

Agency Response

A draft of this report was submitted to the Department of Administration for review. Its response is provided along with this report.

Appendices

The appendices appear following the Department of Administration's formal response.

Appendix A: Summary of State-Owned Buildings by Agency and County

Appendix B: Summary of State-Owned Land by Agency and County

Appendix C: Summary of State-Leased Office and Warehouse Spaces by Agency and County

Program Evaluation Division Contact

For more information on this report, please contact the lead evaluator, Sean Hamel at sean.hamel@ncleg.net.

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