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State Capital Asset Management and Lease Administration Practices

Performance Evaluation, November 2012

Report Highlights

Purpose

To compare the State's management practices for real estate assets and leases with real estate industry practices to identify opportunities for improvement and cost savings.

Background

- In Fiscal Year 2011, the State's real estate portfolio included nearly 70 million gross square feet of owned space and 3.4 million rentable square feet of leased space.
- For Fiscal Years 2009 through 2013, the State approved funding of more than $2.1 billion for State-funded capital projects, and $2.3 billion for cash-funded capital projects for institutions of higher education since January 2010, and made $230 million in lease payments to third party landlords.
- A variety of agencies oversees and manages the State's real estate portfolio in a decentralized fashion.

Our Recommendations

The Governor's Office of State Planning and Budgeting and the Office of the State Architect should:

- Seek to improve the information used to prepare capital project justifications and support decision-making.
- Improve the tracking, monitoring, and reporting on capital construction projects for Executive Branch agencies and institutions of higher education, and work with the Capital Development Committee (CDC) to propose legislation as needed.
- Work with the CDC to develop options, such as lease surcharges, to address controlled maintenance funding needs.
- Work with the CDC to complete a master plan for the Capitol Complex.

The Office of the State Architect should strengthen lease administration practices and conduct lease audits to reduce the risk of operating expense payment errors.

The agencies agreed with our recommendations.

Evaluation Concern

State practices for analyzing capital construction requests, monitoring capital projects once approved, and conducting long-term planning for its real estate portfolio vary from recognized real estate practices. Additionally, the State's lease administration practices and contract provisions lack protocols to mitigate the risk of lease payment errors.

Facts and Findings

- State practices for justifying capital construction requests are not consistent across branches of government, State agencies, or individual projects and do not include analyses of costs before initiation and approval by the CDC and the General Assembly.
- State mechanisms for tracking, monitoring, and reporting on expenditures, project assumptions, and cost savings are inconsistent across agencies and projects and in some cases, do not align with recognized real estate practices. Additionally, agencies generally do not perform post-mortem reviews to assess the validity of project assumptions at project closeout.
- The State lacks sufficient funding for controlled maintenance and if not addressed, controlled maintenance needs will likely result in higher repair and replacement costs for taxpayers. If the $522 million in estimated controlled maintenance needs over the next five years is deferred, repair or replacement of the State's owned building portfolio could cost the State over $2 billion.
- The State generally lacks a comprehensive mechanism for long-term planning (such as a master plan), for its real estate assets. Such a mechanism could assist the State in its efforts to maximize the value of its real estate assets, reduce facility costs, and support funding decisions.
- State lease administration practices lack protocols to assist it in identifying, investigating, and correcting potential overpayment and underpayment of lease operating expenses.
- The State's standardized leases are not aligned with recognized real estate leasing practices and do not adequately protect State agencies from paying more in lease costs than they should.

For further information about this report, contact the
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