EVALUATION OF
STATE OFFICE SPACE
MANAGEMENT AND LEASING

PROGRAM EVALUATION DIVISION
Office of the Legislative Auditor
State of Minnesota

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OFFICE OF THE LEGISLATIVE AUDITOR

PROGRAM EVALUATION DIVISION

STATE OF MINNESOTA

December 4, 1981

PREFACE

Within the last year, legislators have expressed concern about the practices of the Real Estate Management Division of the Department of Administration. In particular, questions have been raised concerning division policies and procedures for leasing office space in non-state owned buildings. As a result, the Legislative Audit Commission directed the Program Evaluation Division to examine the leasing practices of the Real Estate Management Division.

In our evaluation, we found a number of inadequacies in the Real Estate Management Division's review of agency requests to lease non-state owned office space. In fact, we found that the division does not usually collect the information necessary for determining whether more office space is needed or where additional space should be located. These findings are particularly significant in light of recent increases in the amount of space leased in non-state owned buildings.

The division is currently making some progress toward improving its management of leased space. It has developed a "request for space" form which it is beginning to use on a limited basis. In addition, the division plans to survey all state agencies to collect data necessary for analyzing current and projected space needs. The division has also begun to conduct market surveys of the rental market in St. Paul and Minneapolis on a more frequent basis.

Our study has benefited from the full cooperation of the division's management and staff. We hope this report will help the division in improving its management of the state's office space.

This report was prepared by Jo Vos and John Yunker.

James Nobles

James Nobles, Deputy Legislative
Auditor for Program Evaluation

December 4, 1981

PROGRAM EVALUATION DIVISION

The Program Evaluation Division was established in 1975 to conduct studies at the direction of the Legislative Audit Commission (LAC). The division's general responsibility, as set forth in statute, is to determine the degree to which activities and programs entered into or funded by the state are accomplishing their goals and objectives and utilizing resources efficiently. A list of the division's studies appears at the end of this report.

Since 1979, the findings, conclusions, and recommendations in Program Evaluation Division reports are solely the product of the division's staff and not necessarily the position of the LAC. Upon completion, reports are sent to the LAC for review and are distributed to other interested legislators and legislative staff.

Currently the Legislative Audit Commission is comprised of the following members:

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EXECUTIVE SUMMARY

The Real Estate Management Division (REM) of the Department of Administration is responsible for managing the space needs of the state. Division duties include the inventory, planning, allocation, and leasing of office space in state owned and non-state owned buildings for nearly all state agencies.

This report examines the performance of the Real Estate Management Division in the area of space management and leasing of non-state owned office space. In particular, the report focuses on two questions: (1) Does REM adequately review the need for additional office space requested by state agencies? and (2) Does REM conduct an adequate search for office sites so that state costs are minimized while still meeting agency needs and statutory requirements?

These questions are especially important since the state is leasing considerably more office space in non-state owned buildings than it did four years ago. From 1978 through 1980, the amount of space leased by the state increased 43 percent. Combined with an average 28 percent increase in rental rates, this resulted in an 83 percent increase in the state's expenditures for leased office space. During the same time period, the amount of state owned office space remained relatively constant.

By the end of 1980, two-thirds of the office space managed by the Real Estate Management Division was located in non-state owned buildings. Over \$9.2 million was spent to lease approximately 1.5 million square feet of space. At the same time, agencies budgeted approximately \$5.3 million for occupying 0.9 million square feet of state owned office space.

Our findings and recommendations on the space management and leasing activities of the Real Estate Management Division are summarized below.

A. FINDINGS

1. REVIEWING THE NEED FOR ADDITIONAL OFFICE SPACE

Among the principal reasons for having a Real Estate Management Division are: (1) to set space standards for state agency offices and (2) to ensure that agencies do not rent space in excess of these standards or their needs. Our review of agency requests reveals, however, that REM staff have not routinely analyzed the need for additional space requested. In particular:

- An analysis of space needs was not on file in 84 percent of the cases examined.

- In 70 percent of the cases, the Real Estate Management Division did not have on file any of the data necessary for reviewing agency compliance with space standards.

- Over one-third of the lease files did not mention why a change in office space was being requested.

Because of the lack of available data, it is not possible to say whether agencies have leased excessive space. However, it is clear that REM has not placed sufficient controls over the leasing process.

2. SEARCHING FOR OFFICE SPACE

Two additional reasons for having a Real Estate Management Division are to ensure that agencies (1) conduct an adequate search for office space and (2) select a new office site based upon a fair comparison of the merits and costs of alternative sites. The objective is to minimize rental and other costs while still meeting agency needs and keeping within space standards.

Our review included the following issues: (1) Are market surveys or other means such as newspaper advertising consistently used to identify potential office sites? (2) Are the merits and costs of alternative sites systematically compared? (3) Is an adequate market survey and analysis of existing space done before REM agrees to lease space in a building to be constructed or under construction by a private builder or developer? (4) Are requests for lease proposals consistently issued to builders and developers when new construction is necessary? (5) Have agencies complied with the statutory requirement to investigate the availability of space in public buildings such as closed schools? and (6) Have agencies complied with the statutory requirement to lease only space that is accessible to the handicapped?

Our findings are:

- Approximately 59 percent of the leases examined lacked a market survey or a circumstance that might justify not doing one.

- Information on alternative sites was available for only 20 percent of the leases examined. In only a few of these cases were sites systematically compared.

- In only one of four cases examined was there evidence that a market survey was conducted before REM signed a lease or issued a letter of intent to a lessor constructing a new building for state use.

- In only one of these four cases was a request for lease proposals issued to solicit bids from builders and developers.

- Agencies complied with the requirement that vacant space in public buildings, such as closed schools, be investigated in only about one-fifth of the 57 cases examined.

- REM has adequately implemented the statutory requirement that leased offices be accessible to the handicapped.

B. RECOMMENDATIONS

Based on our findings, it appears that the Real Estate Management Division approves most agency requests without an adequate review. In fact, information essential for determining whether more office space is needed or where additional space should be located is infrequently collected by REM.

Our recommendations require the Real Estate Management Division to play a more active role in reviewing and regulating agency requests to move or add space. Although the division has an office manual outlining leasing procedures, there is little evidence to suggest that the division or state agencies are consistently following these procedures. Agencies, especially in outstate areas, often perform functions reserved for division staff. Given division staff and time limitations, the delegation of some responsibilities may, at times, be necessary. However, we question the delegation of division responsibility without the creation and dissemination of detailed guidelines for the exercise of those responsibilities and an adequate review of agency requests.

To ensure agency compliance with space standards, we recommend that the Real Estate Management Division:

- Require any agency requesting to move or add space to submit a formal request for space before conducting a search for space.

- Require the agency to submit information on present and projected staff size and profile, furniture and equipment inventories, storage and special space requirements, and locational needs along with its request for space.

- Verify and analyze the information provided to determine if the agency request is within REM's space standards.

Because past agency moves have not been adequately scrutinized, we recommend that REM evaluate space utilization in a selected number of leased offices.

To ensure that adequate searches for office space are conducted, we recommend that the Real Estate Management Division:

- Develop and distribute procedures for agencies to follow in searching for office space. The procedures should describe, for example, how to conduct an adequate market survey.

- Require agencies to report on the methods used to identify alternative sites and to compare these sites in writing on predetermined criteria. The comparison should include available space in public buildings.

- Require that a market survey of existing space be conducted before deciding to rent space in a building under construction or to be constructed.

- Issue requests for lease proposals whenever new construction is necessary.

- Make the relevant portion of its inventory of public buildings available to agencies needing space and require agencies to comply with Minn. Stat. §16.02, subd. 10a.

Since some agencies that move or add space do not request funding for higher future rental costs until after the move has been completed, we recommend that the Legislature and the Department of Administration consider:

- Requiring any agency requesting additional or more expensive space to inform the Senate Finance and House Appropriations Committees if the agency did not request funds for the space during the last budget cycle.

The information provided should include the agency's rationale for the move, REM's decision regarding the need for the space, and an estimate of the fiscal impact of the move for the next biennium. This information is particularly important to the extent that the agency's request is based on projected staff increases not yet authorized by the Legislature. If desired, this requirement could be limited to moves having a fiscal impact greater than a designated dollar amount such as $5,000.

REM is already making progress toward implementing some of the above recommendations. It has developed a "request for space" form which it is beginning to use on a limited basis. The division plans to survey all state agencies to collect data necessary for analyzing current and projected space needs. REM has also begun to conduct market surveys of the rental market in St. Paul and Minneapolis on a more frequent basis.

INTRODUCTION

The Real Estate Management Division of the Department of Administration is responsible for managing the space needs of the state. A state agency desiring a change in office space must receive the prior approval of the division. The division's responsibilities include: (1) determining agency space needs, (2) finding suitable office space at a reasonable cost, and (3) negotiating a lease if the space is not state owned.

Within the last year, legislators have expressed concern about the practices of the Real Estate Management Division. In particular, questions have been raised concerning division policies and procedures for leasing office space in non-state owned buildings. As a result, the Legislative Audit Commission directed the Program Evaluation Division to examine the leasing practices of the Real Estate Management Division (REM).

Our evaluation addresses two issues: (1) Does REM adequately review agency requests for additional space? and (2) Does REM ensure that alternative office sites are considered so that rental and other costs are minimized while still meeting agency needs and statutory requirements? To examine these issues, we analyzed a random sample of the changes in space leased in non-state owned buildings during 1978, 1979, and 1980. Changes affecting only state owned space were not examined.[1]

Chapter I of this report presents an overview of the state's leasing activities. The second chapter presents our findings and recommendations regarding REM's performance.

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[1]This report does not examine the issue of long range space planning. That issue was addressed by a 1980 consultant's report and the Department of Administration's response to the report. That report, which was mandated by the 1978 Legislature, addresses the following topics: (1) the office space needs of the state for the next five years, (2) the comparative economic advantages and disadvantages of construction, purchase, or leasing of needed office space, (3) the economic impact of the construction, purchase, or lease of office space in St. Paul and Ramsey County, and (4) alternative locations and cost estimates for constructing a building or buildings to office state agencies presently leasing private office space.

I. AN OVERVIEW OF LEASED OFFICE SPACE

This chapter presents an overview of the state's leasing activities. First, the Real Estate Management Division's staffing and responsibilities are briefly described. Second, the amount, location, and cost of leased space in non-state owned buildings are examined. Finally, the impact on rental costs of increased leasing in recent years is explored.

A. REAL ESTATE MANAGEMENT DIVISION

1. RESPONSIBILITIES

The Real Estate Management Division of the Department of Administration is responsible for managing the space needs of the state. This includes the inventory, planning, allocation, and leasing of office space in both state owned and non-state owned buildings for most state agencies.[1]

State agencies desiring a change in office space must receive the prior approval of the division. In reviewing requests for additional space, the division's responsibilities include: (1) reviewing agency space needs and (2) finding suitable office space in state owned or non-state owned buildings. If space is not available in a state owned building, the division is also responsible for negotiating a lease at a reasonable price in a non-state owned building.

The Real Estate Management Division leases office space in over 200 non-state owned buildings. In addition to negotiating leases for this space, the division allocates office space in 17 state owned buildings. Two regional services centers are also managed by the division: the Bemidji Services Center and the Duluth Government Services Center. The Bemidji Services Center is a privately owned office building under lease to the state for five years.[2] The Duluth Government Services Center is a state owned building scheduled for occupancy in 1982.

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[1] Agencies with their own leasing authority include the State Agricultural Society, the Minnesota Zoological Board, the University of Minnesota, and the Minnesota Historical Society.

[2] The Bemidji Services Center lease expires April 15, 1983. The Real Estate Management Division is conducting a study of this center.

2. TYPES OF LEASES NEGOTIATED

Our evaluation of the Real Estate Management Division examines division activities as they relate to one type of lease: the commercial lease for non-state owned office space. Most of these leases are written for a two year period with a two year option to renew. Until recently, Minnesota Statutes limited commercial leases to two years. In 1980, however, the statutory limit was raised to five years. To date, only a few leases have been negotiated for this length of time.

Commercial leases may also be written for other real property such as training centers, storage space, parking facilities, or real estate. Division staff also negotiate and write two other types of leases: income and departmental. Income leases are agreements that rent surplus state owned properties to the general public. Departmental leases are agreements that allocate office space in state owned buildings.

The data in Table 1 show the number of different leases in effect during 1980. As these data indicate, negotiating and renewing leases for non-state owned office space make up the bulk of the division's workload.

TABLE 1

TYPE AND NUMBER OF LEASES NEGOTIATED BY
THE REAL ESTATE MANAGEMENT DIVISION

Type of Lease	Number in Effect
Commercial Office Space	376
Other Commercial	283
Departmental Office Space	107
Other Departmental	39
Income	75

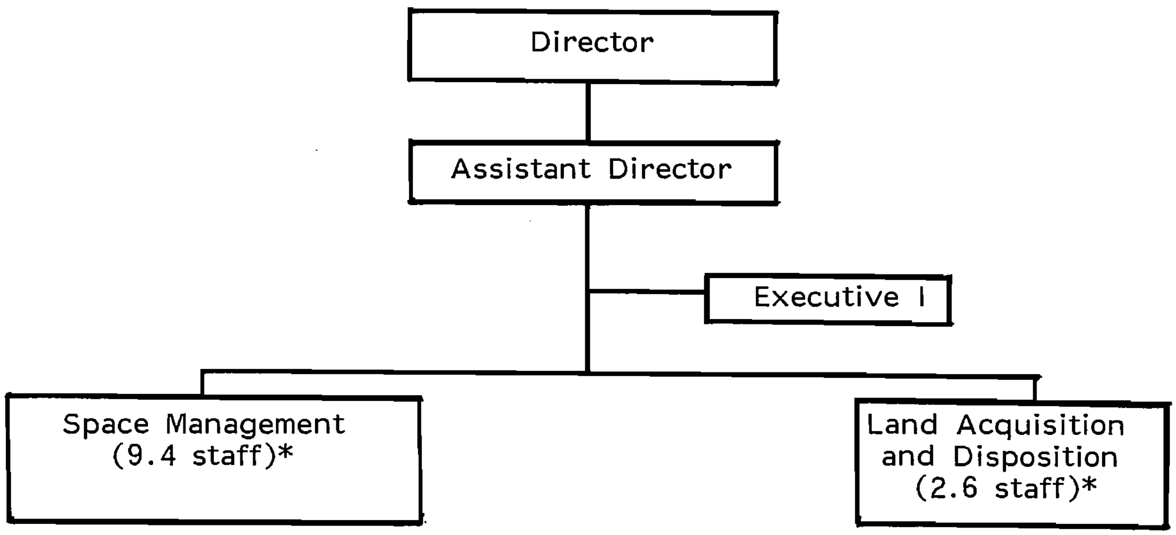
Data Source: Real Estate Management Division Management Information System, December 1980.

3. DIVISION STAFFING

The Real Estate Management Division operates with a staff of 12. Of these, 9.4 staff are involved in space management activities. Approximately 2.6 staff are assigned to land acquisition and disposition activities. Between five and six of the staff involved in space management are involved in leasing non-state owned space. An organizational chart of the division is shown in Figure 1.

FIGURE 1

REAL ESTATE MANAGEMENT DIVISION ORGANIZATIONAL CHART



*The number of staff assigned to each activity includes a pro-rated share of the three administrative positions (Director, Assistant Director, and Executive I).

Data Source: Statewide Accounting System, August 1981.

B. CHARACTERISTICS OF LEASED OFFICE SPACE

1. AMOUNT AND COST OF LEASED OFFICE SPACE

Most of the state's office space needs are met by the private sector. Nearly two-thirds of the office space managed by the Real Estate Management Division is located in non-state owned buildings. In 1980, agencies spent over $9.2 million to lease approximately 1.5 million square feet of non-state owned office space throughout the state. At the same time, agencies budgeted approximately $5.3 million for 0.9 million square feet of state owned office space.

The data in Table 2 show the amount of office space leased at various costs per square foot. As these data indicate, most of the state's leased space cost less than $7.00 per square foot in 1980. Approximately 70 percent of the leased space cost less than $7.00 per square foot; 30 percent cost more than $7.00 per square foot.

TABLE 2

SQUARE FEET LEASED AT VARIOUS COSTS PER SQUARE FOOT: 1980

Cost Per Square Foot	Square Feet Leased*	Percent of Leased Space
$ 0.01 - 4.00	251,000	17%
4.01 - 5.00	80,000	5
5.01 - 6.00	247,000	17
6.01 - 7.00	468,000	31
7.01 - 8.00	189,000	13
8.01 - 9.00	180,000	12
9.01 - 10.00	40,000	3
10.01 - or more	33,000	2

*Rounded to the nearest 1,000 square feet.

Data Source: Real Estate Management Division Management Information System, December 1980.

2. LOCATION OF LEASED SPACE

Approximately two-thirds of the space leased by the state is located in the seven county metropolitan area. Almost all of this space is in Hennepin and Ramsey Counties.

In the seven county metropolitan area, numerous state agencies are housed partially or entirely in privately owned buildings. Outside the metropolitan area, however, most of the space leased by the state is occupied by the Minnesota Department of Economic Security (MDES). In 1980, MDES field offices accounted for approximately three-fourths of the non-state owned office space leased outside the metropolitan area.

C. RECENT INCREASES IN THE AMOUNT AND COST OF LEASED SPACE

The state is leasing considerably more office space today than it did less than four years ago. Between December 1977 and December 1980, the amount of space leased by the state increased 43 percent. The average cost per square foot for leased office space increased 28 percent while total rental costs increased 83 percent. These data are presented in Table 3.

TABLE 3

LEASED OFFICE SPACE: 1977 THROUGH 1980

Square Feet Leased	1977	1978	1979	1980
Metropolitan area*	725,500	798,000	881,300	991,600
Balance of state	314,000	435,800	530,800	495,500
Total	1,039,500	1,233,800	1,412,100	1,487,100
Cost Per Square Foot				
Metropolitan area	$5.05	$5.77	$5.78	$6.71
Balance of state	4.34	4.39	5.05	5.16
Statewide average	$4.83	$5.28	$5.50	$6.20
Annual Cost				
Metropolitan area	$3,662,700	$4,604,500	$5,093,500	$6,657,600
Balance of state	1,363,000	1,912,800	2,678,600	2,556,900
Total	$5,025,700	$6,517,300	$7,772,100	$9,214,500

*This includes the seven county metropolitan area.

Data Source: Real Estate Management Division Management Information System.

1. INCREASES IN SPACE

Three factors have contributed to the increase in leased space since 1977: (1) the expansion of existing agencies, (2) the relocation of agencies previously housed in state owned buildings, and (3) the establishment of new field offices or new agencies.

Slightly less than one-half of the increase or 200,000 square feet can be attributed to the expansion of existing agencies. Agencies expanded their leased space in one of three ways. Some agencies moved their complete operations into larger, alternative office space. For example, the Minnesota State Arts Board doubled its leased space when the board moved into different office space in 1979 (3,450 square feet compared with 1,716 square feet). Other agencies expanded their leased space by moving portions of their operations into additional space located elsewhere while retaining all of their space at their original location. Finally, some agencies increased the amount of space leased by expanding into adjacent office space. For example, since moving into 15,880 square feet of privately owned office space in 1978, the Housing Finance Agency has increased its space by 3,900 square feet or 25 percent.

One-third of the total increase in space leased since 1977 or about 150,000 square feet was needed for agencies relocated from state owned buildings. These moves either accommodated the expanding needs of the agencies themselves or made state owned space available for other purposes. For example, the Department of Agriculture moved out of 53,200 square feet of state owned space into 64,000 square feet of leased space to accommodate its own needs and the space needs of the Legislature.

Finally, approximately one-fifth of the overall increase in space leased since 1977 or about 90,000 square feet houses new field offices or new agencies. Over 15 new Department of Economic Security or Department of Natural Resources field offices opened since 1977. In addition, a small number of new agencies have been established since 1977. For example, the Waste Management Board, created in 1980, occupies nearly 5,000 square feet of leased office space.

2. INCREASES IN RENTAL RATES

Overall, the 28 percent increase in the average cost per square foot is reasonable considering the effects of inflation and other factors. This increase amounts to less than a 9 percent annual increase. REM staff believe that a number of factors besides inflation have contributed to the increase: (1) the requirement that offices be accessible to the handicapped, (2) an increase in the number of services (such as janitorial, electricity, heating, and even routine maintenance) which are paid for in the rental rate, and (3) an upgrading of the quality of space leased when agencies move to new sites.

However, we found the increase to be considerably larger for those agencies that moved. For example, when agencies relocated to larger offices, rental rates increased an average of 39 percent. Agencies moving to smaller offices experienced an even greater increase--47 percent. In contrast agencies that did not change their office space experienced only a 14 percent increase in both cost per square foot and total annual rental costs.[1] Table 4 presents these data.

TABLE 4

IMPACT OF AGENCY DECISIONS TO MOVE INTO ALTERNATIVE OR ADDITIONAL OFFICE SPACE

		Average Percentage Change in:		
Type of Office Change*	Number of Changes	Amount of Space	Cost Per Square Foot	Annual Cost
Relocation to larger office	57	+73%	+39%	+134%
Relocation to smaller office	11	-24	+47	+12
Expansion into adjacent office space	61	+57	+17	+77
Contraction into less office space	12	-16	+19	+1

*These figures do not include agencies that moved from state owned to non-state owned office space.

Data Source: Program Evaluation Division analysis of lease files.

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[1] This figure is based on a random sample of leases for which no change in office space occurred during 1978, 1979, and 1980.

These larger than average increases do not appear to be fully explained by inflation, handicapped accessibility requirements, or an increase in services included in the leases. The upgrading of office quality has apparently been a significant factor in increasing the rental rates of agencies that moved.

3. INCREASES IN TOTAL RENTAL COSTS

The data in Table 4 show that the largest increase in total costs occur when agencies relocate to larger offices. In fact, the annual rental costs more than doubled on average in the 57 cases in which this occurred.

The second largest increase occurred when agencies expanded into adjacent office space. The 77 percent average cost increase resulted largely because the amount of leased space increased by 57 percent.

It is worth noting that total costs also increased by 12 percent when agencies moved to smaller offices. A 24 percent reduction in office space was more than offset by a 47 percent increase in the rental rate paid.

II. AN ANALYSIS OF OFFICE SPACE MANAGEMENT AND LEASING

This chapter examines the performance of the Real Management Division (REM) in the area of space management and leasing of non-state owned office space. In particular, this chapter focuses on two questions:

- Does REM adequately review the need for additional office space requested by state agencies?
- Does REM ensure that an adequate search for alternative office sites is conducted so that state rental and other costs are minimized while still meeting agency needs and statutory requirements?

Our findings and recommendations for improvement are discussed below.

A. FINDINGS

1. REVIEWING THE NEED FOR ADDITIONAL OFFICE SPACE

Among the principal reasons for having a Real Estate Management Division are: (1) to set space standards for state agency offices and (2) to ensure that agencies do not rent space in excess of these standards or their needs. To determine whether the Real Estate Management Division adequately performs these functions, we examined randomly selected samples of (1) leases that were newly established and (2) leases that were amended to change the amount of leased space during 1978, 1979, and 1980. Our first sample includes 80 of the 161 leases that were newly established during this period. These new leases include state agencies, offices, or programs that: (1) moved from other non-state owned office space, (2) moved from state owned office space, or (3) were established during this time period.

Our second sample includes 35 of the 69 leases for which the amount of space leased at a given location increased or decreased in 1978, 1979, or 1980. In these cases, agencies either expanded by renting additional adjacent space or reduced the amount of space leased without relocating. The 35 leases include 45 separate changes in the amount of leased space since some agencies increased or decreased their space more than once during the three year period we examined.

Our review of REM lease files for both of these samples reveals the following:

- An analysis of space needs was not on file in 84 percent of the cases.

- In 70 percent of the cases, the Real Estate Management Division did not have on file any of the data necessary for reviewing agency compliance with space standards.

- Over one-third of the lease files did not mention why a change in office space was being requested.

Table 5 presents these data for each of the two samples. Table 6 lists the percentage of lease requests for which various types of relevant program information were provided by operating agencies.[1]

We did not examine whether agencies complied with space standards. Indeed, the lack of data available at REM would have severely constrained any such effort. As a result, it is not possible to say whether agencies have leased excessive space.

However, it is clear that REM has not placed sufficient administrative controls over the leasing process. Unless agencies submit the information necessary to justify expansions or moves and an analysis of space needs is prepared and reviewed by qualified individuals, there can be no assurance that agencies comply with space standards.

2. SEARCHING FOR OFFICE SPACE

Two additional reasons for having a Real Estate Management Division are to ensure that agencies (1) conduct an adequate search for office space and (2) select a new office site based upon a fair comparison of the merits and costs of alternative sites. The objective is to minimize rental and other costs while still meeting agency needs and keeping within space standards.

Minnesota Statutes give the Commissioner of Administration broad authority to select and lease non-state owned office space for state agencies. The Commissioner is not required to advertise the state's need for office space or to obtain competitive bids. According to the Real Estate Management Division, advertising for office space or soliciting competitive bids by issuing requests for lease proposals is rarely necessary. Instead, division procedures indicate that it relies on its own market surveys to locate potential space. These surveys include personally canvassing communities, using local newspaper listings, and contacting area realtors. In instances where

[1]The samples include 12 cases in which agencies reduced the amount of space leased. If these cases were excluded, the results in Tables 5 and 6 would not significantly change. For example, the percentages of lease files without an analysis of needs and without any relevant program information would be 85 percent and 71 percent respectively.

TABLE 5

SPACE NEEDS ANALYSES

	Percentage of Lease Files		
	Sample #1	Sample #2	Both Samples Combined
Lease files without an analysis of space needs	88%	78%	84%
Lease files without any of the relevant program information	71	67	70
Lease files without mention of reason for request	40	31	37

TABLE 6

PROGRAM INFORMATION SUBMITTED BY OPERATING AGENCIES

	Percentage of Files Containing This Information		
Type of Information	Sample #1	Sample #2	Both Samples Combined
Number of staff	24%	31%	26%
Type of staff	10	22	14
Office needs	11	20	14
Miscellaneous space needs*	10	2	7

*This category includes information on equipment, furniture, or other special space needs.

Data Source: Program Evaluation Division analysis of lease files.

agencies find potential space on their own, procedures indicate that division staff inspect the proposed property and discuss lease terms with the lessor.

According to the Real Estate Management Division's procedures manual, requests for lease proposals are issued and newspaper advertising is used whenever existing buildings are inadequate and new construction appears inevitable. In these instances, procedures indicate that staff prepare "requests for lease proposals" and mail them to local builders and developers, newspaper ad respondents, city and state officials, and local chambers of commerce.

Minnesota Statutes place two specific requirements on the office space leased by the state. First, agencies cannot lease additional space in privately owned buildings unless they have certified in writing that they have thoroughly investigated the availability of space in public buildings and have found none to be feasible or adequate.[1] Second, agencies cannot lease more than 1,000 square feet of office space in non-state owned buildings unless it is accessible to the handicapped or the Commissioner of Administration has granted a specific waiver.[2]

This section reviews REM's implementation of the procedures and requirements outlined above. In particular, it examines the following questions: (1) Are market surveys or other means such as newspaper advertising consistently used to identify potential office sites? (2) Are the merits and costs of alternative sites systematically compared? (3) Is an adequate market survey and analysis of existing space done before REM agrees to lease space in a building to be constructed or under construction by a private builder or developer? (4) Are requests for lease proposals consistently issued to builders and developers when new construction is necessary? (5) Have agencies complied with the requirement to investigate the availability of space in public buildings such as closed schools? and (6) Have agencies complied with the requirement of handicapped accessibility?

a. Use of Market Surveys

To examine the use of market surveys, we reviewed 80 of the 161 leases which were newly established in 1978, 1979, or 1980. Approximately four-fifths of these lease files contained no information on sites other than the one selected. In some instances, it may have been reasonable to select a site without doing a complete market survey. For example, an agency might find it preferable to add space in a building it already occupies than to locate the extra space in another building. Nevertheless, approximately 59 percent of the leases lacked a market survey or a circumstance that might justify not doing one. Newspaper advertising was used for four percent of the leases.

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[1]Minn. Stat. §16.02, subd. 10a.

[2]Minn. Stat. §16.85, subd. 1b. and 1d.

b. Comparison of Alternative Sites

Various degrees of information on alternative sites were available for approximately 20 percent of the 80 leases examined. The operating agency provided the information in slightly more than one-half of these cases. REM compiled the information in the remaining instances. In only a few cases were sites systematically compared along predetermined criteria. These market surveys were usually done by REM staff for sites in the seven county metropolitan area.

We did not attempt to determine if agencies could have leased less expensive space than was actually leased. Because of the lack of information on alternative sites, it would have been necessary to reconstruct what office space was available at various rates at the time each move was made. To reconstruct past market conditions would have been extremely time-consuming if not impossible.

Nevertheless, it is clear that REM has not placed sufficient administrative controls over this aspect of the leasing process. REM should require an agency to demonstrate that an adequate survey of alternative sites has been made before approving a request to move to a particular site.

During 1981, REM began to conduct market surveys of the rental market in St. Paul and Minneapolis on a more frequent basis. The surveys are conducted approximately every month and are of some use to REM in leasing decisions. However, their use is limited because they do not cover suburban or outstate areas. As a result, an additional survey will be necessary if an agency is looking for office space in a suburban or outstate location. In addition, a survey will be required if the needs of an agency looking for space in St. Paul or Minneapolis cannot be met by lessors included in the monthly Twin Cities survey.

c. Decisions to Lease New Construction

Generally it is more expensive to rent newly constructed space than previously existing office space. As a result, it is important that REM ensure that an adequate market survey of existing space be completed before an agency decides to rent new space.

Our sample includes four cases in which REM signed leases or issued letters of intent to lessors constructing buildings for state use. In only one case was there evidence that a market survey or other means was used to identify existing space. As a result, we question whether REM adequately monitors agency decisions to lease space in new buildings.

d. Use of Requests for Lease Proposals

Real Estate Management Division procedures indicate that requests for proposals are issued whenever existing buildings are inadequate and new construction seems necessary. It is important to issue requests for lease proposals in these cases so that rental and other related costs can be minimized while meeting space needs.

During the time period under study, however, requests for lease proposals were not routinely solicited. In only one of the four cases sampled was a request for lease proposals issued. We conclude that REM does not consistently issue requests for proposals when new construction is necessary.

e. Investigation of Space in Public Buildings

As of July 1, 1979, agencies leasing additional space in privately owned buildings were required to certify in writing to the Commissioner of Administration that they have investigated the availability of vacant space in public buildings, such as closed schools, and found none to be feasible and adequate. There has apparently been little compliance with this statutory requirement with respect to office space. Of the 80 leases examined, a total of 57 were effective on or after July 1, 1979. Only about one-fifth of these 57 files contained documentation that space in public buildings was investigated. In addition, according to REM staff, there has been little change in the number of agencies moving into office space in public buildings since enactment of this requirement.

REM does maintain an inventory of public buildings available for lease in each county. It does not, however, generally circulate relevant portions of this inventory to agencies searching for new or alternative office space. Since most agencies outside the seven county metropolitan area conduct their own searches for office space, the inventory maintained by the Real Estate Management Division could be put to greater use.

f. Handicapped Accessibility

A second statutory requirement of leased space concerns its handicapped accessibility. As of July 1, 1980, agencies cannot lease more than 1,000 square feet of space unless it is accessible to the handicapped or the Commissioner of Administration has granted a waiver.

REM's policy is to limit the term of each lease in a non-accessible building to one year. In addition, specific clauses are inserted in the lease requiring the lessor to bring the facility into compliance with standards for handicapped accessibility.

Twenty-one of the 80 leases we examined were effective as of July 1, 1980. Eleven were for more than 1,000 square feet. According to information in REM lease files, about three-fourths of these offices were accessible to the handicapped. The remaining one-fourth of the offices were not accessible when the leases were written. However, these remaining offices have since been brought into compliance with standards.

Based on our sample, REM has implemented the statutory requirement with respect to leased office space. In fact, REM has also made efforts to make smaller offices accessible to the handicapped. According to REM, about one-half of the offices of less than 1,000 square feet are accessible.

B. DISCUSSION AND RECOMMENDATIONS

Based on our findings, it appears that the Real Estate Management Division approves most agency requests without an adequate review. In fact, information essential for determining whether more office space is needed or where additional space should be located is infrequently collected by REM.

It should be noted that REM does not have enough staff to independently collect data on agency space needs or to search for office space. REM must rely in most instances on agencies to do this work. REM does have enough staff, however, to adequately perform the regulatory and review functions which were examined in the previous section. Our recommendations for improved performance are discussed below.

1. REVIEWING THE NEED FOR ADDITIONAL OFFICE SPACE

To ensure agency compliance with space standards, we recommend that the Real Estate Management Division:

- Require any agency requesting to move or add space to submit a formal request for space before conducting a search for space.
- Require the agency to submit information on present and projected staff size and profile, furniture and equipment inventories, storage and special space requirements, and locational needs along with its request for space.
- Verify and analyze the information provided to determine if the agency request is within REM's space standards.

Because past agency moves have not been adequately scrutinized, we also recommend that REM evaluate space utilization in a selected number of leased offices.

In the past, agencies have not given REM much lead time to review their requests. Based on our sample of 80 leases, we found that agencies gave REM 45 or fewer days in 53 percent of the cases. Our recommendation that agencies request space and supply information on space needs before searching for space may help. It may be desirable, however, for REM to require agencies to submit space requests at least a specified number of months in advance of a move. Such a requirement could be waived in instances in which the need to acquire space could not be anticipated that far in advance.

REM has begun to implement some of these recommendations. REM has developed a "request for space" form which is being used in analyzing the space needs of the new Department of Energy, Planning, and Development. In addition, REM plans to survey all state agencies to determine their current and projected space needs in detail. Then, as staff resources permit, REM plans a selective audit of existing space utilization. This survey will also enable REM to make quicker and more informed decisions about moves proposed in the future.

2. SEARCHING FOR OFFICE SPACE

To ensure that adequate searches for office space are conducted, we recommend that the Real Estate Management Division:

- Develop and distribute procedures for agencies to follow in searching for office space. The procedures should describe, for example, how to conduct an adequate market survey.
- Require agencies to report on the methods used to identify alternative sites and to compare these sites in writing on predetermined criteria. The comparison should include available space in public buildings.
- Require that a market survey of existing space be conducted before deciding to rent space in a building under construction or to be constructed.
- Issue requests for lease proposals whenever new construction is necessary.
- Make the relevant portion of its inventory of public buildings available to agencies needing space and require agencies to comply with Minn. Stat. §16.02, subd. 10a.

Because leasing newly constructed space has a greater fiscal impact, REM should conduct or closely supervise the market survey of existing space.

3. LEGISLATIVE OVERSIGHT

While some agencies have specifically requested and received sufficient funds for a proposed move, others have not requested funds from the Legislature or Governor in advance of a move. In these latter instances, the agency funds its move and higher rent from salary or other budgetary savings in the current fiscal biennium. In the next biennium, funds for higher rental costs are included in the agency's request but not identified as a change in the level of spending. The Legislature and Governor cannot very easily disapprove of the additional expense since the agency has already moved.

We recommend that the Legislature and the Department of Administration consider:

- Requiring any agency requesting additional or more expensive space to inform the Senate Finance and House Appropriations Committees if the agency did not request funds for the space during the last budget cycle.

The information provided should include the agency's rationale for the move, REM's decision regarding the need for the space, and an estimate of the fiscal impact of the move for the next biennium. This information is particularly important to the extent that the agency's request is based on projected staff increases not yet authorized by the Legislature. If desired, this requirement could be limited to moves having a fiscal impact greater than a designated dollar amount such as $5,000.

STUDIES OF THE PROGRAM EVALUATION DIVISION

Final reports and staff papers from the following studies can be obtained from the Program Evaluation Division, 122 Veterans Service Building, Saint Paul, Minnesota 55155, 612/296-8315.

1977

1. Regulation and Control of Human Service Facilities
2. Minnesota Housing Finance Agency
3. Federal Aids Coordination

1978

4. Unemployment Compensation
5. State Board of Investment: Investment Performance
6. Department of Revenue: Assessment/Sales Ratio Studies
7. Department of Personnel

1979

8. State-sponsored Chemical Dependency Programs
9. Minnesota's Agricultural Commodities Promotion Councils
10. Liquor Control
11. Department of Public Service
12. Department of Economic Security, Preliminary Report
13. Nursing Home Rates
14. Department of Personnel, Follow-up Study

1980

15. Board of Electricity
16. Twin Cities Metropolitan Transit Commission
17. Information Services Bureau
18. Department of Economic Security
19. Statewide Bicycle Registration Program
20. State Arts Board: Individual Artists Grants Program

1981

21. Department of Human Rights
22. Hospital Regulation
23. Department of Public Welfare's Regulation of Residential Facilities for the Mentally Ill
24. State Designer Selection Board
25. Corporate Income Tax Processing
26. Computer Support for Tax Processing

27. State-sponsored Chemical Dependency Programs, Follow-up Study
28. Construction Cost Overrun at the Minnesota Correctional Facility - Oak Park Heights
29. Individual Income Tax Processing and Auditing
30. State Office Space Management and Leasing

In Progress

31. State Timber Sales
32. Fire Inspections of Residential Facilities for the Disabled
33. State Mineral Leasing
34. State Purchasing
35. Department of Education Information System
36. Procurement Set-Asides
37. Post-Secondary Vocational Education