

State of Alaska FY2010 Governor's Operating Budget

Department of Administration Lease Administration Component Budget Summary

Component: Lease Administration

Contribution to Department's Mission

The leases program provides cost effective office space for State agencies in a timely manner.

Core Services

- Procure private lease space for use by the State Executive Branch.
- Manage space and administer over 550 leases with the private sector and leases in State owned facilities.
- Provide space-planning recommendations and retain architectural and engineering services to analyze lease space issues (i.e., structural load capacities).
- Conduct lease rate and lease space availability market research studies.
- Consolidate state owned and/or leased space when economies can be realized.
- Review agency remodel request in leased facilities and obtain lessor's approval.
- Provide space standard recommendations and contract guidance for all State owned office facilities outside the DGS portfolio. The management of maintenance, operations, and deferred maintenance projects for office space, other than the 14 listed in Facilities Administration, is administered by other various state departments (i.e. DMVA, DOT&PF, DNR).

| End Result | Strategies to Achieve End Result |
|---|---|
| A: Maximized effectiveness and efficiency of leased space. <u>Target #1:</u> Renewals and new leases executed at 7.5% below market rate. <u>Status #1:</u> Renewals and new leases were executed for 8.59% less than market rate in FY2008, exceeding the 7.5% target. | A1: Re-negotiate lease terms to obtain reduced costs. <u>Target #1:</u> 70% of renewals and new leases negotiated at below market rates. <u>Status #1:</u> FY2008, 75% of renewals and new leases were negotiated at below market rates. |

| FY2010 Resources Allocated to Achieve Results | | |
|---|-------------------|-----------|
| FY2010 Component Budget: \$1,206,900 | Personnel: | |
| | Full time | 10 |
| | Part time | 1 |
| | Total | 11 |

Performance

A: Result - Maximized effectiveness and efficiency of leased space.

Target #1: Renewals and new leases executed at 7.5% below market rate.

Status #1: Renewals and new leases were executed for 8.59% less than market rate in FY2008, exceeding the 7.5% target.

Cost of newly negotiated rental rate per square foot versus market rate per square foot.

| Fiscal Year | Annual |
|-------------|--------|
| FY 2008 | 8.95% |
| FY 2007 | 19.13% |
| FY 2006 | 16.31% |

A1: Strategy - Re-negotiate lease terms to obtain reduced costs.

Target #1: 70% of renewals and new leases negotiated at below market rates.

Status #1: FY2008, 75% of renewals and new leases were negotiated at below market rates.

% of expiring leases re-negotiated at reduced rates.

| Fiscal Year | Annual |
|-------------|--------|
| FY 2008 | 75.00% |
| FY 2007 | 76.47% |
| FY 2006 | 71.43% |

Key Component Challenges

- Enforce revised space standards to ultimately reduce space needs and associated expenditures.
- Obtain replacement space for leases expiring in FY2009 and FY2010.
- Obtain new or additional space for state agencies as required.
- Continue multi year task of designing, planning, constructing and relocating departments from private leases for occupancy to the Robert B. Atwood Building and the new Palmer State Office Building.
- Administer and manage design, planning, construction and leasing of (3) private ground floor suites in the new Linny Pacillo Parking Garage.
 - Suite 100 – Wildfin Restaurant scheduled to open April 1, 2009
 - Suite 200 – Vacant
- Suite 300 – Northrim Bank, opened September 15, 2008.
- Conduct site investigations of lease and owned space to ensure maximum efficiency and improve space management.
- Reduce average lease cost for expiring leases as provided in AS 36.30.083.
- Audit leases and ensure renovation clause is enforced.
- Audit leases and confirm lessors are conforming with their contractual obligation to provide certificate of insurances.
- The following leases have expirations which require renewal or replacement during or before FY2010. When these leases are replaced the cost of a new lease may exceed the limits set in AS 36.30.080 (c), or \$500,000 per year or \$2.5 million for the life of the lease. The Current Annual Cost is the current annual lease cost of the current lease. Replacement of these leases will take place throughout the next fiscal year and the actual replacement costs are not known at the time of budget preparation. A projection of the potential total cost of the replacement leases has been included under Potential Cost of Replacement Lease w/ all Renewal Options. The actual annual and total cost of each lease will be determined by market conditions at the time of solicitation. This list shall serve as the required notification under AS 36.30.080 (c).

| Lease # | Location | Agency | Current Sq Ft | Current Annual Cost | Current Lease Expiration Date | Replacement / New Lease Expiration with all Renewal Options | Potential Cost of Lease with all Renewal Options (commencing w occupy.) |
|--------------|-----------|--------|---------------|---------------------|-------------------------------|---|---|
| Extend #2382 | Anchorage | LAW | 80,741 | \$2,157,943 | 9/30/09 | 9/30/19 | \$30,345,697 |
| Extend #2401 | Anchorage | DEC | 40,550 | \$534,238 | 5/31/10 | 5/31/20 | \$9,732,000 |
| Extend | Anchorage | DEED | 10,800 | \$191,699 | 5/31/10 | 5/31/20 | \$3,960,000 |

| | | | | | | | |
|------------------------|--|--|--|--|--|--|--|
| or Replace #2345 | | | | | | | |
|------------------------|--|--|--|--|--|--|--|

Significant Changes in Results to be Delivered in FY2010

In order to achieve overall lease cost savings a number of strategies will continue in FY2010. In addition to reducing the number of leased facilities, space standards will be used as a guideline to equitably reduce the amount of lease space needed. Expanded boundaries and revised lease solicitation documents will be used to decrease the lessors requirements and overall lease rate, thus maximizing space efficiency through improved space management.

Continue to utilize State owned space over procuring lease space through the private sector; specifically, with:

- Palmer State Office Building, 81,000 s.f. – State occupancy scheduled for 3/1/10
 - Includes early termination (lease buyouts) of private leases
- Robert B. Atwood Building – suite #1540 and suite #100 (only two private tenants remain)

Major Component Accomplishments in 2008

- Effectively reduced the average cost of leased space by 10.93% from the market rent.
- Renegotiated 71.43% of expired leases at lower rates.
- Continue to utilize State owned space over procuring lease space through the private sector. Continued enforcement of space standards guidelines, reducing the amount of leased space necessary for State agencies.
- Managed and maintained 100% occupancy in all State owned facilities.
- Opened for public paid use during non business hours the Linny Pacillo Parking Garage. Approximately 435 parking spaces, 10 story facility.
- Monitored and resolved flooding and occupant issues at the Department of Labor Building lease in Juneau.
- Completed complex lease negotiations for major ETS VOIP Anchorage hub at the Frontier Building.
- Obtained lessors approval for leases requiring VOIP remediation statewide.

Statutory and Regulatory Authority

AS 36.30.080 State Procurement Code
 AS 44.21.020 (1), (5) Duties of the Department

Contact Information

Contact: Vern Jones, Chief Procurement Officer
Phone: (907) 465-5684
Fax: (907) 465-2189
E-mail: Vern.Jones@alaska.gov

Lease Administration Component Financial Summary

All dollars shown in thousands

| | FY2008 Actuals | FY2009 Management Plan | FY2010 Governor |
|--------------------------------|----------------|---------------------------|-----------------|
| Non-Formula Program: | | | |
| Component Expenditures: | | | |
| 71000 Personal Services | 811.1 | 883.7 | 914.9 |
| 72000 Travel | 16.8 | 19.0 | 19.0 |
| 73000 Services | 154.0 | 257.8 | 257.8 |
| 74000 Commodities | 23.6 | 15.2 | 15.2 |
| 75000 Capital Outlay | 0.0 | 0.0 | 0.0 |
| 77000 Grants, Benefits | 0.0 | 0.0 | 0.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 1,005.5 | 1,175.7 | 1,206.9 |
| Funding Sources: | | | |
| 1004 General Fund Receipts | 28.4 | 58.1 | 89.3 |
| 1007 Inter-Agency Receipts | 977.1 | 1,117.6 | 1,117.6 |
| Funding Totals | 1,005.5 | 1,175.7 | 1,206.9 |

Estimated Revenue Collections

| Description | Master Revenue Account | FY2008 Actuals | FY2009 Management Plan | FY2010 Governor |
|---------------------------------|------------------------------|----------------|---------------------------|-----------------|
| Unrestricted Revenues | | | | |
| Interagency Receipts | 51015 | 17.5 | 0.0 | 0.0 |
| Unrestricted Fund | 68515 | 161.7 | 0.0 | 0.0 |
| Unrestricted Total | | 179.2 | 0.0 | 0.0 |
| Restricted Revenues | | | | |
| Interagency Receipts | 51015 | 1,121.3 | 1,117.6 | 1,117.6 |
| Restricted Total | | 1,121.3 | 1,117.6 | 1,117.6 |
| Total Estimated Revenues | | 1,300.5 | 1,117.6 | 1,117.6 |

**Summary of Component Budget Changes
From FY2009 Management Plan to FY2010 Governor**

All dollars shown in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|--|----------------------|----------------------|--------------------|--------------------|
| FY2009 Management Plan | 58.1 | 0.0 | 1,117.6 | 1,175.7 |
| Adjustments which will continue current level of service: | | | | |
| -Correct Unrealizable Fund Sources in the Salary Adjustment for the Existing Bargaining Unit Agreements | 31.2 | 0.0 | -31.2 | 0.0 |
| -FY2010 Wage and Health Insurance Increases for Bargaining Units with Existing Agreements | 0.0 | 0.0 | 31.2 | 31.2 |
| FY2010 Governor | 89.3 | 0.0 | 1,117.6 | 1,206.9 |

**Lease Administration
Personal Services Information**

| Authorized Positions | | | Personal Services Costs | |
|----------------------|---|----------------------------------|----------------------------------|----------------|
| | <u>FY2009</u> <u>Management</u> <u>Plan</u> | <u>FY2010</u> <u>Governor</u> | | |
| Full-time | 10 | 10 | Annual Salaries | 606,870 |
| Part-time | 1 | 1 | COLA | 24,378 |
| Nonpermanent | 0 | 0 | Premium Pay | 1,211 |
| | | | Annual Benefits | 316,078 |
| | | | <i>Less 3.55% Vacancy Factor</i> | (33,637) |
| | | | Lump Sum Premium Pay | 0 |
| Totals | 11 | 11 | Total Personal Services | 914,900 |

Position Classification Summary

| Job Class Title | Anchorage | Fairbanks | Juneau | Others | Total |
|--------------------------------|-----------|-----------|----------|----------|-----------|
| Accountant III | 0 | 0 | 1 | 0 | 1 |
| Accounting Tech II | 0 | 0 | 2 | 0 | 2 |
| Administrative Assistant II | 1 | 0 | 0 | 0 | 1 |
| Analyst/Programmer III | 0 | 0 | 1 | 0 | 1 |
| Contracting Officer III | 5 | 0 | 0 | 0 | 5 |
| State Leasing & Facilities Mgr | 1 | 0 | 0 | 0 | 1 |
| Totals | 7 | 0 | 4 | 0 | 11 |