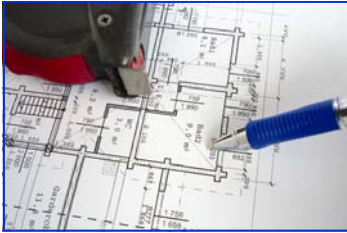


# Real Estate Exchange

A newsletter from the Division of Real Estate Services

February 2009



Please visit the DRES website at:  
<http://www.dgs.virginia.gov/DivisionofRealEstateServices/tabid/174/Default.aspx>

**The next DRES Roundtable meeting is scheduled for March, 2009, for agency heads and administrative managers. The date will be announced in the Leadership Communiqué.**

## Chapter 879, Acts of Assembly (§ 3-2.03 c ) Assistance for Agency Relocation Costs

### Policy

The State Comptroller, in conjunction with the Departments of General Services and Planning and Budget, shall establish guidelines for agencies and institutions to utilize a line of credit to support fixed and one-time costs associated with implementation of office space consolidation, relocation and/or office space co-location strategies, where such line of credit shall be repaid by the agency or institution based on the cost savings and efficiencies realized by the agency or institution resulting from the consolidation and/or relocation. In such cases the terms of office space consolidation or co-location strategies shall be approved by the Secretary of Administration, in consultation with the Secretary of Finance, as demonstrating cost benefit to the Commonwealth. In no case shall the advances to an agency or institution exceed \$1,000,000 nor the repayment begin more than one year following the implementation or extend beyond a repayment period of seven years.

### Process

The Department of General Services, through its Division of Real Estates Services (DRES), will prepare a lease cost comparison summary for all proposed new leases and renewals when there is an expectation of cost savings and the agency designated to occupy space under the new or renewal lease (Agency) has expressed interest in pursuing a line of credit under Chapter 879 § 3-2.03 c. The cost comparison will include an estimate of anticipated occupancy cost savings achievable under the new lease agreement when compared to current actual Agency occupancy costs.

DRES will obtain the concurrence of the Agency on the one-time cost estimates and the lease cost comparison.

In those cases where anticipated lease cost savings are not sufficient to repay a loan pursuant to the repayment terms in Chapter 879 § 3-2.03 c or where one-time costs are greater than \$1.0 million, the Agency will assess its ability to cover the costs with existing resources. Should the existing resources be insufficient, then the Agency will work with its Cabinet Secretary and the Department of Planning and Budget (DPB) to seek supplemental resources.

In those cases where one-time costs are less than \$1.0 million and can be paid back from the anticipated cost savings pursuant to the repayment terms in Chapter 879 § 3-2.03 c and the Agency does not have sufficient resources to cover the one-time costs, the Agency may submit a request for a line of credit pursuant to Chapter 879 § 3-2.03 c. along with the DRES cost comparison summary to the Department of Accounts (DOA) with a copy to DPB. The Agency will acknowledge that repayment is required by the Agency even if the anticipated savings are not realized.

DOA will set the terms and conditions for the line of credit and its repayment.

Agencies will record the expenditure of the one-time items in the appropriate subobject codes and fund/fund detail. If needed, agencies will submit a FATS to DPB to transfer the general fund portion of the line of credit to a designated fund/fund detail assigned by DOA and, if required, to appropriate the nongeneral fund portion to the appropriation nongeneral fund/fund detail.

Agencies will make their annual repayment prior to June 30.

DPB will work with the Agency to identify future savings obtained through the new lease agreement. DPB will consider the merits of repaying all, or a portion, of the line of credit prior to determining appropriate disposition of the identified future savings.

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## DRES Requesting 3-Year Facility Strategic Plans

In our continuing effort to improve service delivery by partnering with each agency, DRES will be requesting updated or new facility strategic plans from agencies after the 2009 General Assembly session. The information provided will serve as a reference manual for DRES and the agency to manage the real estate appropriately.

In most instances, we anticipate that agencies will be simply compiling information that already exists in varying formats within the agency, so that we are not adding to your workload.

DRES will request new or updated information annually with an emphasis on:

- List of owned and leased properties, including acreage, square footage of buildings, employee population, etc.
- Interior build out standards for leased space
- Desired real estate approach for each leased or owned facility
- Annual updates of site population (current and projected)

### High Transaction Volume Agencies Being Asked to Submit 3-Year Strategic Facility Plans for 2009-2011

|                 |                             |
|-----------------|-----------------------------|
| <b>DCR</b>      | Conservation and Recreation |
| <b>IDC</b>      | Indigent Defense Commission |
| <b>DOC</b>      | Corrections                 |
| <b>DOLI</b>     | Labor and Industry          |
| <b>VEC</b>      | Employment Commission       |
| <b>DMV</b>      | Motor Vehicles              |
| <b>DEQ</b>      | Environmental Quality       |
| <b>DRS</b>      | Rehabilitative Services     |
| <b>DFP</b>      | Fire Programs               |
| <b>DSS</b>      | Social Services             |
| <b>DOF</b>      | Forestry                    |
| <b>VSP</b>      | State Police                |
| <b>DGIF</b>     | Game and Inland Fisheries   |
| <b>VDOT</b>     | Transportation              |
| <b>VDH</b>      | Health Dept.                |
| <b>DVS</b>      | Veterans' Services          |
| <b>DMHMRSAS</b> | Mental Health               |

## Recap of December 12, 2008 Roundtable Meeting:

The Roundtable participants received information on:

1. DRES transaction services
2. Property administration services
3. Cost savings and avoidance in real estate transactions
4. Facility strategic plans being requested from 17 agencies
5. Free IREMS training for agencies will be provided every other month, beginning in mid-January, 2009. *Watch for invitations by email!*
6. **Caution:** Using the Non-Appropriation Lease Language to Terminate Leases:
  - There is a clause in every lease that allows the lease to be terminated in the event of non-appropriation of funds because State agencies do not have the authority to expend money that has not been appropriated in the current Biennium
  - The clause may only be used if the specific agency, location and effective date are identified as not being funded in either:
    - ✓ The Appropriations Bill or other approved legislative actions
    - ✓ The Governor's Budget Reduction Plan

### Impact

**DRES recommends that agencies not seek to use the non-appropriation feature of their leases because of the potential impact on any future lease transactions. These include:**

- Landlords may lose confidence that Commonwealth will be a secure tenant and will adjust rental rates up for the increased risk.
- Landlords may be reluctant to lease to the Commonwealth long term or when they anticipate budget reductions in the future. The strongest landlords with the best properties will be the most likely to avoid leasing to the Commonwealth.
- Landlords may be unable to use Commonwealth leases as collateral for tenant improvement construction loans, and will be unwilling to fund the work out-of-pocket for fear of losing their investment.
- Landlord lease concessions such as free rent, moving expenses, funding for furniture purchases etc. will no longer be offered because the landlord will be uncertain of recovering the costs over the full term of the lease.
- Construction projects that have financing secured by future lease payments will stop because bond holders will no longer have confidence in the security of the debt. The bond rating of the Commonwealth may be downgraded.
- Every agency will need to budget for the full costs of tenant improvements, furniture and other move and setup costs that were formerly funded by landlords under the lease.

### DRES Lease Administration Process Corrects Payment Errors (as of Dec. 2008)

*A total of \$191,371.12 in payment errors (from 15 agencies) have been found and resolved to date by the DRES Lease Administration Team:*

- \$55,473.88 in overpayments of rent to Landlords \*
- \$115,850.81 in underpayments of rent to Landlords
- \$13,569.03 savings from review of operating expenses
- \$6,477.40 cost avoidance on projected operating expenses

*\* An additional \$54K is in the process of being collected.*

