Sunset Advisory Commission

Staff Study

Texas Facilities Commission

November 2008

Sunset Advisory Commission

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In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 12-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency’s operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them.

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Summary

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In 2007, the 80th Legislature passed House Bill 3560, renaming the Texas Building and Procurement Commission the Texas Facilities Commission (TFC), and transferring its procurement functions to the Comptroller's Office. As a result of this bill, TFC's key mission is to manage construction, maintenance, and leasing of state facilities. The bill also required the Sunset Advisory Commission to study TFC's functions and report to the 81st Legislature any recommendations it considers appropriate based on considering the study. The textbox, *Texas Facilities Commission Sunset Study*, details the charge. House Bill 3560 did not subject TFC to abolishment, and the agency's current Sunset date is September 1, 2013.

House Bill 3560 also requires the Sunset Commission to evaluate the functions transferred to the Comptroller's Office, and report to the 82nd Legislature in 2011. Unless the Legislature takes actions otherwise, the Comptroller's procurement functions revert back to TFC on September 1, 2011.

> ***Texas Facilities Commission Sunset Study***
>
> The study conducted by the Sunset Commission must assess the best allocation of state resources for:
>
> - the acquisition of state buildings through lease or purchase;
> - the construction of buildings owned by the state;
> - the control and maintenance of buildings owned or leased by the state; and
> - all other related responsibilities performed by the commission.
>
> The study must also consider the benefits to the State of outsourcing any TFC functions to private entities or of allocating those functions to other state agencies. The bill also required the State Auditor's Office and the General Land Office to assist with the study.

The Sunset Commission thanks the State Auditor's Office for its extensive assistance with data analysis needed for assessing build, buy, or lease options, and for conducting analyses of TFC's lease portfolio. The Sunset Commission also thanks the General Land Office for providing information to assist with the study.

Summary of Results

As a result of this study, Sunset staff provides the Sunset Commission the following options should it choose to make any recommendations regarding TFC to the 81st Legislature.

- If the State acquires additional office space to house state agency employees, TFC should fully evaluate allocating State resources to build or buy office space, rather than continuing to rely on long term leases that result in increased costs to the State.
- TFC should ensure it uses an updated methodology for analyzing options to build, buy, or lease; and to provide the Legislature with clear and complete comparative information when considering different scenarios to acquire office space.
- TFC should evaluate its two lease-purchase agreements for office buildings housing Texas Department of Transportation employees in Austin, to determine if these buildings still provide best value to the State.

- TFC should consider outsourcing all, or a portion, of it's leasing functions and portfolio. With a high percentage of leases expiring and market conditions changing, the State may be well positioned to renegotiate its lease portfolio with the assistance of private firms.

While conducting this study, Sunset staff also assessed the following TFC functions and activities, finding no need to incorporate these areas into the options discussed above.

- In August, 2008, the Council on Competitive Government (CCG) conducted a review of TFC's Property Management Division. The Council identified opportunities for TFC to contract for energy savings retrofits; waste management and recycling; and building security.[1] Sunset staff met with Division staff, but did not duplicate CCG's efforts by further assessing the Division. Also, the Division already contracts for most custodial and grounds keeping staff, and maintenance rates TFC charges client agencies are well below contractor rates. Sunset staff also found that the Facility Design and Construction Division already outsources for most architecture, engineering, and construction services.

- With transfer of TFC's procurement functions to the Comptroller's Office, Sunset staff did not find compelling benefits resulting from transfer of TFC's remaining facilities construction and management function to any other state agency. However, in its recent *Statewide Load Aggregation Proposal*, TFC recommends the Legislature increase TFC's role and authority in managing all state agency utility usage.[2] Should the Legislature pursue this initiative, it may want to consider if this function, and similar functions of the State Energy Conservation Office, are best located at the Comptroller's Office or the Texas Facilities Commission.

- Sunset staff also reviewed TFC's ability to manage and track building maintenance, minor construction, and leasing services provided to client agencies. Sunset assessed the benefits of TFC outsourcing for a more comprehensive and integrated asset management information system. Sunset found some limitations in TFC's leasing database, further addressed in this study, however the agency is upgrading its asset management software to provide additional inventory and maintenance functionality.

Customer Service Survey

In addition to this study, Sunset staff conducted an Internet-based survey of staff from TFC's client agencies to provide information on customer satisfaction with TFC's services, and obtain input from TFC's customers on how the agency could make further improvements. Appendix A, on page 25 of this study contains the survey results.

1 State Council on Competitive Government, *Texas Facilities Commission Maintenance Program Review* (Austin, Texas, August 2008), p. 2.

2 Texas Facilities Commission, *Statewide Load Aggregation Proposal* (Austin, Texas, September 2008) p. 6.

Study Results

Section I

Best Allocation of State Resources for Building, Buying, or Leasing Office Space

Texas Facilities Commission's Role in Acquisition of Office Space

- According to TFC, state agency staffing will grow at 0.5 percent per year, resulting in an increase of about 800 state employees by 2011. However, the State lacks space in state-owned office buildings to house these employees, and short of constructing new buildings, Texas will instead have to rely on leasing, resulting in increased costs to the State.[1] TFC manages 134 state-owned facilities, including 46 office buildings in Travis and surrounding counties, where about 100 agencies with about 21,260 employees reside. All of these properties provide the State about 5.17 million square feet of usable office space. The agency also manages state office buildings in Corpus Christi, El Paso, Fort Worth, Houston, San Antonio, Tyler and Waco. In fiscal year 2007, TFC spent about $62.8 million to pay bond debt, utilities, and maintenance on all state office buildings. Texas last constructed a state office building in 2000, the Robert E. Johnson Building.

TFC spends about $112 million a year on leases, mostly for office space.

- TFC also manages a leasing portfolio of about 980 leases, costing about $112 million annually, and providing 10.2 million square feet of space for 36 state agencies. Of total leased space, 2.7 million square feet is in Austin and Travis County, and costs about $32 million annually. Statute authorizes TFC to evaluate the benefits of building, buying, or leasing (BBL) space to meet state agencies' needs to house employees. Statute authorizes TFC to conduct BBL analyses in counties where the State leases 50,000 square feet of space or more, currently 23 counties in Texas, as shown in the map on page 21 of this study.

Methodology for Analysis of Building, Buying, or Leasing Office Space

- As part of the TFC study directed by H.B. 3560, Sunset Commission staff, with assistance from the State Auditor's Office (SAO), assessed the best allocation of state resources for building, buying, or leasing space to house state employees. Statute requires TFC to ensure that when building or buying office space, total occupancy costs will not exceed the cost of leasing, when calculated over the term of bond debt, typically 20 years.[2] To meet these statutory criteria, TFC has a methodology for assessing BBL decisions that includes cost-benefit analyses for planning, land acquisition, design, construction, management, and lease-to-purchase. While TFC broadly looks at BBL decisions, Sunset found that TFC has not applied this specific methodology in several years. The agency may need to evaluate if its BBL methodologies are up to date and consistently applied.

TFC should re-examine its build, buy, or lease decision methodology.

- To conduct a BBL analysis for this study, SAO developed a methodology to calculate the relative cost/benefits of BBL decisions. Sunset and SAO acknowledge that any BBL analysis is situational and dependent on variables such as property use and local market conditions. However, the BBL methodology in this study uses standard BBL criteria to provide a useful baseline for assessing the relative cost/benefits of building, buying, or leasing office space. To develop this methodology, SAO reviewed TFC policies, construction planning documents, analyzed lease data, and interviewed TFC staff. The resulting methodology includes the following key costs:
  - purchasing land for construction projects;
  - constructing a new building;
  - issuing bond debt for construction or purchase of buildings;
  - remodeling or renovating a purchased building;
  - leasing building space; and
  - maintenance, utilities, and janitorial services.
- To provide a reasonable comparison of building or buying costs to leasing costs, SAO projected lease costs over 10 and 20-year periods. TFC signs most leases for 10 years and often renews for the same amount of time. Also, 20 years is the typical repayment period for bond financing for build and buy decisions. In the methodology, SAO applied costs for building, buying, and leasing office space as a one-time cost to the State. However, leases can be renewed for longer than 20 years, with associated ongoing costs. The methodology uses a new office building of 40,000 square feet as a baseline standard building. SAO used an Internet-based application used by TFC, RS Means, to calculate build or buy costs. SAO also used TFC fiscal year 2008 leasing data in the analysis.

The cost of building or buying office space is less than leasing over the long term.

Best Allocation of State Resources for Building, Buying, or Leasing Office Space

- The study found that for long-term use of 20 years or more, building or buying office space would be the best allocation of state resources for housing state agency employees. Sunset staff and SAO analyzed key costs for the Travis County area to determine the average cost per square foot that TFC would need to consider in making a decision to build, buy, or lease office space. The chart, *Comparative Costs of Building, Buying, or Leasing Office Space*, shows the average cost per square foot of space for building, buying, or leasing in Travis County and four outlying counties. While the initial costs of building an office space are slightly higher than

Comparative Costs of Building, Buying, or Leasing Office Space

County	Estimated Building Value	Average Cost Per Square Foot		
		Build or Buy	10 Year Lease Cost	20 Year Lease Cost
Travis	$5,687,876	$143	$138	$276
Jefferson	$5,830,703	$147	$111	$222
Tom Green	$5,242,855	$132	$111	$222
Tyler	$5,158,936	$130	$109	$214
Walker	$5,075,859	$128	$119	$239

Note: Assumes about 40,000 square feet of new office space valuing about $5.7 million in Travis County. Costs for build and buy are the same because both are for new construction. Build and buy costs are based on construction costs of 30 percent of total costs. Bond issuance costs estimated at $7.66 per $1,000 of bonds. Occupancy costs are based on TFC average costs reported on fiscal year 2008 performance measures. Estimated building life is 50-75 years.

leasing space for 10 years, the cost of building is less than leasing over a 20 year period. However, for shorter-term space needs of 10 years or less, leasing could be more cost effective. Also, buying a newly constructed building could be slightly more expensive than TFC constructing the building, depending on builder profits.

The study examined the Travis County area because of its large concentration of state buildings and employees. In addition, should the State propose to build new office buildings, they would most likely be in the Travis County area because of the high numbers of state employees residing in the area, and the numerous state agency central offices located in the area. To provide a further basis for comparing the cost of building, buying, or leasing, Sunset applied its BBL methodology to four outlying counties where the State has more than 50,000 square feet of leased space: Jefferson, Tom Green, Tyler, and Walker counties.

Occupancy costs must be factored into build, buy, or lease decisions.

- When considering a BBL decision, occupancy cost should also be incorporated into the analysis. When building or buying space, agencies pay for maintenance, utilities, and other costs associated with occupying the space. In the long term, maintenance costs can be high if continually deferred over the life of the building. When leasing space, responsibility for occupancy costs can be negotiated between the landlord and tenant agency. TFC leases specify if the tenant agency or the landlord pays occupancy costs. The accompanying chart shows projected occupancy costs for a 40,000 square foot office building. The State could negotiate with a landlord to potentially offset some, or all, of these costs.

Projected Occupancy Cost
40,000 Square Foot Office Building

Occupancy Cost	Rate	Annual Cost	10 Year Lease Cost	20 Year Lease Cost
Maintenance and Custodial	$1.17	$46,800	$468,000	$936,000
Utilities	$2.92	$106,800	$1,068,000	$2,136,000
Total	**$4.09**	**$153,600**	**$1,536,000**	**$3,072,000**

When considering whether to build, buy, or lease office space, several other factors should be considered besides the key costs. The chart, *Additional Factors in a Build, Buy, or Lease Analysis*, summarizes these considerations.

Additional Factors in a Build, Buy, or Lease Analysis

	Build or Buy	Lease
Funding Sources	Building or purchasing is typically funded by issuing bond debt for 20 years or more. Depending on the structure of this debt, and bond issuance costs, debt payments are typically a fixed amount and may be more, or less, than lease payments. The State can also raise funds by selling existing state office buildings. However, the cost of temporarily re-locating state agency staff while constructing a building can reduce funds available to help offset the costs a new building.	Agencies receive appropriations to make lease payments. Lease payments are generally subject to annual cost-of-living adjustments.
Space Needs	Building or buying office space allows agencies to customize space to their needs. The costs of customizing space should be factored into the overall costs of building or buying space.	Leased space may need renovation to meet the needs of tenant agencies. Lease agreements can specify if the landlord or tenant agency pays these costs.
Time Sensitivity	Building or buying office space can take considerable time due to various factors, including time needed for buying property, design, and construction. Also, because building or buying can involve bond debt, these decisions must be approved by the Legislature, the Bond Review Board and potentially, voters.	Leasing can provide faster turnaround times to meet the needs of agencies facing time constraints. However, timeliness of leasing depends on several factors, including lead time needed to locate appropriate space.

Assessment of Leases with Option to Purchase

- This study looked at a fourth option in the BBL scenario: leasing with an option to purchase. TFC has only two lease-to-purchase properties in its leasing portfolio, in place since 1993. These leases cover three Texas Department of Transportation (TxDOT) buildings located on Riverside Drive in Austin. The textbox, *TFC-Leased TxDOT Buildings,* provides details on these leases, which cover only the buildings and not the land. Under the lease terms, TxDOT also pays building maintenance and occupancy costs. TFC has separate leases for the land, for which TxDOT pays about $6,000 to $12,000 a month, depending on market conditions.

  TFC has authority to decide if the State should purchase these buildings, which would then become TFC managed, state-owned properties. In the past, TFC has exercised the option to purchase other leased properties, however those lease options included both the building and land. According to TFC, the agency has not purchased the buildings due to the separate land leases, which if purchased, would be at high market rates.

Rather than purchase these buildings, TFC has continued to renew the leases. TFC can exercise the option to purchase in September or December of every odd-numbered year.

- Sunset staff and SAO examined these lease payments to determine if purchasing would be more cost effective for the State. The State may have had missed opportunities to realize savings by not purchasing these properties in the past. For example, the State may have saved money had it purchased both buildings in 2005. While the lease contracts provide methods for the State to purchase the land, the leases do not specify land costs.

  As of fiscal year 2008, the State has paid about $25.5 million in total lease payments for the two buildings in lease A, and $11.6 million for the building in lease B, as shown in the chart *TFC-Leased TxDOT Buildings*. The charts on the following page show that based on lease amortization schedules, by 2012 and 2013, the State can purchase these buildings for one dollar or less, not including the land. However, the State must continue to lease the land or purchase it, likely at market value.

TFC-Leased TxDOT Buildings – Austin

Lease A:
- Two office buildings: 220,020 square feet
- Number of FTEs: 642
- Annual lease payment: $1,620,970
- Total lease payments: $24,846,977
- Taxable land value: $11,648,970

Lease Terms

1st: June 1, 1993 – June 30, 1997

2nd: July 1, 1997 – June 30, 2007

3rd: July 1, 2007 – June 30, 2012

Lease B:
- One office building: 142,692 square feet
- Number of FTEs: 592
- Annual lease payment: $1,120,593
- Total lease payments: $16,080,513
- Taxable land value: $7,812,090

Lease Terms

1st: December 1, 1993 – November 30, 1998

2nd: December 1, 1998 – November 30, 2008

3rd: December 1, 2008 – November 30, 2013

Conclusion

- The study found that if the State considers acquiring additional office space, the best allocation of resources would be to build, or buy, rather than continuing to rely on long-term leases which cost more over time. The methodology developed by Sunset and SAO shows that in Travis County, the cost per square foot for building office space is slightly higher than leasing for 10 years, but significantly less than leasing for 20 years.

  The study also found that TFC should review its policies to ensure it has a clear, updated methodology to apply to a BBL analysis, to provide the Legislature with the best possible information and options should it decide to build, buy, or lease more office space in the future. Also, the study found that TFC should closely evaluate whether its two lease-purchase agreements provide best value for the State, and when taking ownership of these buildings, if the State should purchase the land.

The State can build office space in Travis County for much less than leasing for 20 years.

Savings Associated With Purchasing Lease A

Option to Purchase Date: September 15	Remaining Lease Payments	Cost to Purchase Buildings	Potential Savings
1995	$15,118,774	$11,743,723	$3,375,051
1997	$15,877,883	$10,932,632	$4,945,250
1999	$15,527,789	$10,010,901	$5,516,889
2001	$13,387,131	$8,979,964	$4,407,167
2003	$12,088,496	$7,811,128	$4,277,368
2005	$9,706,060	$6,496,460	$3,209,601
2007	$7,129,089	$5,008,070	$2,121,019
2009	$4,517,206	$3,340,393	$1,176,813
2011	$1,531,043	$1,435,916	$95,127
2012	$39,463	**$1**	$39,462

Savings calculated assuming bonds issued for 20 years at 5.5 percent interest, and average debt service payments of about $979,385 annually. Effective February 2008, the State will continue paying administrative costs associated with land use, currently $555,708 annually, and expected to increase. Building purchasing costs do not include the land value.

TFC will be able to buy the TxDOT buildings for less than $1 by 2013.

Savings Associated With Purchasing Lease B

Option to Purchase Date: December 1	Remaining Lease Payments	Cost to Purchase Buildings	Potential Savings
1995	$10,643,378	$9,034,831	$1,608,547
1997	$11,721,239	$8,702,706	$3,018,533
1999	$11,742,504	$8,085,162	$3,657,342
2001	$10,302,466	$7,379,396	$2,923,069
2003	$9,667,078	$6,585,411	$3,081,667
2005	$8,112,139	$5,687,636	$2,424,502
2007	$6,415,504	$4,625,159	$1,790,344
2009	$4,811,589	$3,450,127	$1,361,462
2011	$2,890,546	$2,151,354	$739,192
2013	$808,383	**$0**	$808,383

Savings calculated assuming bonds issued for 20 years at 5.5 percent interest, and average debt service payments of about $979,385 annually. Effective December 2008, the State will continue paying administrative costs associated with land use, currently $411,840 annually, and expected to increase. Building purchasing costs do not include the land value.

1 Texas Building and Procurement Commission, *Statewide Facilities Inventory Status*, (Austin, Texas, April 18, 2007) p. 11.

2 Texas Government Code, sec. 2166.453.

Section II

Outsourcing Texas Facilities Commission Leasing Functions

Texas Facilities Commission's Leasing Function

- Statute authorizes the Texas Facilities Commission (TFC) to provide office and other space on behalf of state agencies. TFC must first attempt to meet an agency's needs by using state-owned space. If state-owned space is unavailable, TFC works with client agencies to lease space. TFC primarily locates and negotiates leases for office, parking, warehouse, and laboratory space. For Health and Human Services Commission (HHSC) agencies, TFC cannot lease office space unless HHSC approves of TFC's proposal for space.

TFC must first try to use state-owned space before leasing space.

- State law requires the Facilities Commission to decide lease selections based on obtaining best value for the state.[1] TFC may award a lease to a property owner offering space at lowest cost, if TFC determines that doing so obtains best value. The Facilities Commission may consider other qualities of a space, including condition, location, utility costs, transportation access, parking, security, and a property owner's financial resources and experience.

- The Facilities Commission may delegate authority specifically for leasing to state agencies, and has done so on a limited basis. TFC's Executive Director grants approval, but TFC requires executive branch agencies to notify the Governor before requesting delegated leasing authority. The Facilities Commission can also revoke this authority if needed. TFC may provide leasing services to agencies not under its purview, at an agency's request.

TFC Leasing Procedures

- The Facilities Commission performs space management – which includes planning, organization, and oversight – for all leased and state-owned facilities. TFC requires client agencies to submit requests for space at least one year in advance of needing space. First, TFC visits the client agency to ensure it is making the best use of current space. If TFC determines that the client agency needs additional or different space, TFC's leasing agents work with the client agency to identify and locate suitable property, and later, to negotiate a lease.

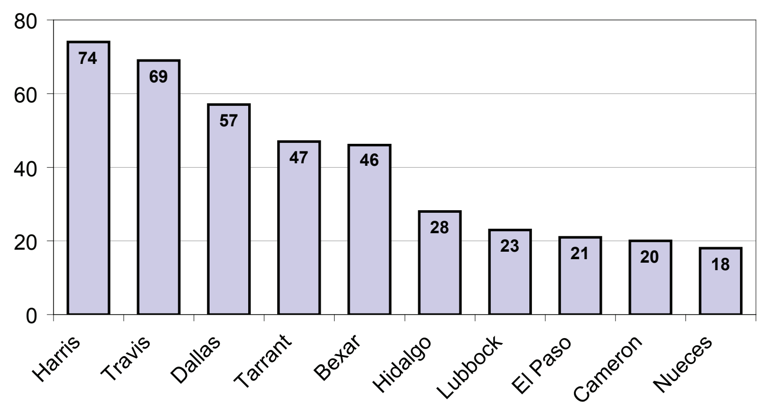
- Statute allows TFC to lease space either by competitive bidding, competitive sealed proposals, or – if TFC determines that competition is unavailable – direct negotiation. TFC generally leases space by soliciting competitive sealed proposals through a request for proposal in the Texas Register, and meeting other notice requirements. TFC scores proposals and negotiates with multiple offerors. Client agency staff sit on TFC's evaluation panel to help assess each bid to make a final decision. Once the parties sign the lease, the tenant agency maintains day-to-day contact with the landlord, unless the space has major deficiencies or TFC needs to conduct future negotiations.

TFC's Lease Portfolio

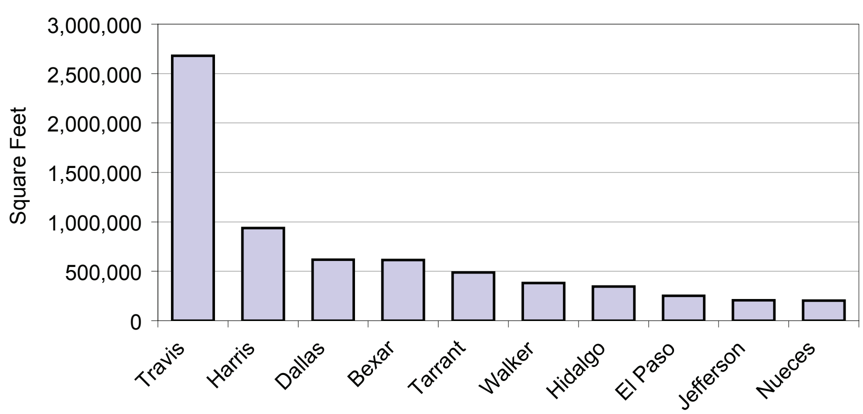
Eighty-five percent of state-leased space in Travis County will expire in 2011.

- Statewide, TFC manages 978 leases, with 36 agencies occupying this space. The lease portfolio contains 10.2 million square feet of space costing about $112 million annually. The State's ratio of state-owned space versus leased space is about equal. The graph, *Counties With the Highest Number of TFC Leases*, shows that of the 10 counties with the most leases, Harris County is first with 74. However, Travis County has the most leased square footage, as shown in the graph, *TFC Leased Square Footage Per County*. TFC leases about 2.7 million square feet in Travis County costing about $32 million annually. Of this leased space, leases for about 2 million square feet, or 85 percent, will expire in 2011. Fifty-five percent of the lease portfolio consists of buildings leased for HHSC.

Counties With the Highest Number of TFC Leases



TFC Leased Square Footage Per County



- By statute, a lease cannot exceed 10 years but can include the option to renew. TFC's leasing database indicates that, because of lease renewals, the average time a state agency occupies a particular space is about 15 years. Analysis of TFC leasing data shows that more than 300 leased spaces are locations that agencies have, or will, occupy for 17 to 29 years. According to TFC, because of continual changes in market conditions, most lease renewals involve some amount of renegotiation and adjustment to the lease terms.

About 300 leases have state agencies in the same locations from 17 to 29 years.

Potential for Outsourcing TFC Leasing Functions

- Sunset staff assessed the potential benefits of outsourcing all, or a portion, of TFC leasing functions to private real estate or asset management firms. Sunset staff found that Texas, with a large leasing portfolio valued at about $112 million, could potentially benefit from performance-based contracts for leasing and asset management services that could reduce costs to the State and improve the quality of leased properties. With about one-third of the portfolio set to expire in 2011, the State should consider opportunities to outsource some, or all, of TFC's leasing functions and portfolio.

  Real estate and asset management firms typically provide an array of services, as shown in the textbox, *Services Offered by Real Estate and Asset Management Firms*. These firms can exclusively represent the interests of tenant agencies. These firms provide services at no direct cost to the State because they receive commissions, typically three-to-four percent of lease transactions, paid by property owners.

  TFC indicates it negotiates lease rates at, or just below, market rates, in part because landlords do not pay TFC these commissions. Recognizing TFC's success at keeping lease rates low, TFC's staffing limitations may affect its ability to negotiate for even lower rates, or for other benefits that private firms may obtain, such as payment for moving costs. Ultimately, in some situations, such as large lease consolidations or negotiating large, complex portions of the lease portfolio, private firms may be better positioned to provide benefits to the State.

Services Offered by Real Estate and Asset Management Firms

Real estate and asset management firms offer a range of services including the following:

- cost analysis of leasing, buying, or building office space;
- market analysis and site selection;
- analysis of occupancy costs;
- preparation of requests for proposals;
- design of lease contracts;
- negotiation of lease terms with landlords;
- management of leases and transactions;
- management of properties and facilities;
- management of office space needs;
- relocation of state agency staff; and
- asset management information systems.

- The Facilities Commission tried to outsource its leasing functions in the past; however, these efforts were never fully realized. In 2003, the agency outsourced management of its entire lease portfolio to a real estate firm, but both the agency and the firm agreed to terminate the contract by the following year. More recently, TFC was close to finalizing a contract to outsource all of HHSC's lease portfolio, but TFC and HHSC agreed to cancel this effort due to ongoing changes in HHSC's office structure and staffing levels. Despite TFC's difficulties in outsourcing its leasing services in the past, the agency's recent reorganization and clearer focus on managing the State's building assets may present new opportunities for successful outsourcing of this function.

- Using the Texas Multiple Awards System (TXMAS) administered by the Comptroller's Office, TFC can procure leasing services from firms on an as-needed basis. TFC can use TXMAS at no additional cost to the State because the system provides for a pre-set commission to firms that cannot exceed four percent of the value of the transaction. At the end of the fiscal year, firms must rebate 0.75 percent of commissions to the State. TFC has two TXMAS leasing contracts but has only used one for a few leases. TXMAS offers limited ability to procure services beyond finding and negotiating single leases. Outsourcing management of a large portion, or all of TFC's lease portfolio is a significant undertaking that would involve complex negotiations and contract management beyond what TXMAS offers.

Other states outsource portions of their leasing operations.

- Sunset found that other states contract with real estate and asset management firms for different types of services, from outsourcing management of entire lease portfolios to contracting for individual services such as locating a specific building space. Appendix B, on page 31, provides information on selected states that outsource leasing functions to private firms.

Option I: Outsourcing TFC's Entire Lease Portfolio

- Rather than managing the process of locating properties and negotiating leases on behalf of client agencies, TFC could instead outsource management of its entire lease portfolio, and shift to a contract management role. Under this scenario, TFC would maintain control of setting policies for leasing, and also oversee leases for client agencies to ensure compliance with relevant statutes, rules, and policies. The Facilities Commission would closely manage and monitor firms to ensure they meet contract terms, and to ensure firms accurately report cost savings over time. TFC leasing staff would serve as contract managers similar to the role played by TFC's Facilities Design and Construction Division, which oversees contracted providers on numerous large construction projects.

  TFC could require all state agencies under its jurisdiction to use contracted firms when leasing or purchasing property. Firms would collaborate with tenant agencies to locate facilities and negotiate leases with landlords. Firms would draft, track, monitor, and report to TFC all leases and subcontracts. TFC could use a variety of different services provided by private firms, such as technical expertise, market data analysis, and contract negotiation. Contracts with firms could also stipulate that they provide research, planning, consulting, or other value-added services.

TFC could outsource property leasing and shift to a contract management role.

- TFC could potentially structure its contracts with real estate firms to help offset tenant agency costs associated with moving into a new location. Landlords typically factor in commissions into their lease prices, particularly if a real estate firm is procuring the property. Following the example of TXMAS, and contracting structures in other states, TFC could require the contracted firm to rebate a percentage of commissions to TFC. Subject to Legislative approval, the Facilities Commission could establish a dedicated account for these funds, available to offset the moving costs of tenant agencies.

Option II: Outsourcing a Portion of TFC's Lease Portfolio

- Instead of outsourcing TFC's entire lease portfolio, the State could elect to outsource a part of the portfolio, while retaining TFC's role in managing the portfolio overall. For example, TFC could use contracted firms for leased facilities outside of Travis and surrounding counties. Timely, cost-effective space acquisition is partially dependent on knowing local markets where agencies need space. TFC may have sufficient resources to conduct leasing in the Austin area. However, with just four leasing agents, attempting to locate and lease properties outside of Travis County, where 7.5 million square feet – or about 73 percent – of the portfolio is located, may strain TFC's resources.

  Due to TFC's limited staffing, the agency relies on tenant agency staff to locate sites outside of Travis County and to serve as the day-to-day contact with landlords. If TFC outsourced portions of the lease portfolio outside of Travis County, it could access the expertise and resources of these firms in outlying areas, freeing the time and resources of tenant agencies. TFC could also better focus its own efforts on managing leases in Travis County.

Limited outsourcing could allow TFC to focus its staff on leasing within Travis County.

- TFC could also consider outsourcing portions of the lease portfolio based on other criteria, such as TFC's regional boundaries, segments of the portfolio where TFC could realize the most savings, areas of the state where TFC needs specific market expertise, or by state agencies with specific client service needs, such as HHSC.

TFC staff have expertise on state agencies that private firms might lack.

Option III: Maintaining Leasing as a TFC Function

- As an alternative to outsourcing, the State could consider maintaining leasing as an in-house function. TFC typically obtains lease rates at or below market rates, a key indicator of effectiveness. TFC leasing agents have expertise in working within Texas state government and are familiar with state laws, rules, and procedures. TFC staff also have working knowledge of tenant agency programs and needs, such as the location and type of facility required to best carry out the agency's mission. Also, based on the results of a survey by Sunset staff, most TFC clients appear satisfied with TFC's leasing services.

Conclusion

- The State could realize benefits from exercising options for outsourcing TFC's leasing functions and portfolio. With a high percentage of leases expiring soon and market conditions changing, the time may be right for the State to significantly restructure its lease portfolio with the assistance of private firms. The State has flexibility to structure outsourcing to maximize benefits such as lower cost leases, more tenant improvements, and better quality properties. However, any outsourcing would require effective contract management and oversight of private firms to ensure compliance with deliverables and contract terms. The chart, *Outsourcing TFC Leasing Functions*, summarizes key potential benefits and drawbacks to outsourcing TFC's leasing functions and portfolio.

Outsourcing TFC Leasing Functions

Potential Benefits of Outsourcing	
1. Savings resulting from more effective negotiation of lease rates.	TFC may lack time and resources needed to negotiate more favorable lease rates. Contracting lease negotiations to firms with leasing agents having extensive knowledge of local market could potentially lower leasing costs, as occurred recently in Florida.[2]
2. Savings from negotiating items other than lease rates.	TFC's small, Austin-based staff may lack resources needed to consistently negotiate other terms, beyond lease rates, including benefits such tenant agency moving costs. Firms may be better equipped to more effectively negotiate additional benefits and lower costs for tenant agencies.
3. Ability to work directly with tenant agency staff in different areas of the state.	TFC may have limited resources needed to maintain closer contact with tenant agency staff when determining lease needs and following up with property conditions. TFC is only able to visit about 300 locations a year, less than one-third of the lease portfolio. Private firms may provide more staff and resources to work consistently with tenant agency staff in areas of the state where TFC has little presence.
4. Improved ability to quickly locate properties and negotiate leases based on local markets.	A private firm could have lease agents in particular markets with expertise on local market conditions and be better able to find, and negotiate, leases more quickly. In addition, private firms could provide local market information needed to assess options for reducing costs, such as consolidating leases.
5. Improved asset management capability.	TFC's spreadsheet-based leasing database has relatively limited functionality compared to other asset management systems. For example, the database cannot identify new leases versus extensions, and does not readily provide historical data. A private firm could provide a more current asset management system with improved data capabilities.
Potential Drawbacks of Outsourcing	
1. Lack of long-term relationships with property owners.	Private brokers may not have the close working relationships that TFC has established over time, and landlords may be reluctant to negotiate with private firms.
2. Tenant agencies may not see private firms as representing their interests.	Private firms may focus on negotiating new leases, rather than remaining in the same location, even if the current location best suits the agency's needs. In addition, private firms could potentially have conflicts of interests with landlords.

Outsourcing TFC Leasing Functions

Potential Drawbacks of Outsourcing ***(continued)***	
3. Private firms may lack the expertise needed to serve state agencies.	State leasing agents may have a better a better understanding of client agency needs. Private firms may not be familiar with the specific laws, rules, and procedures governing state agencies and their space needs.
4. TFC would need to devote resources to contract management.	TFC staff would have to effectively oversee contracted firms to ensure firms meet contract requirements and performance measures. Private firms may have difficulty clearly documenting long-term benefits.[3]
5. Commissions paid to private firms could potentially increase the cost of leases.	Because private firms rely on commissions paid by landlords, these commissions could be rolled into the cost of leases, increasing costs to the State.

....

[1] Texas Government Code, sec. 2167.0021.

[2] Florida Office of Program Policy Analysis and Government Accountability (OPPAGA), *Workspace Management Initiative Can Benefit State, But DMS Not Taking Adequate Steps to Ensure Goals Are Met*, report no. 06-06 (Tallahassee, Florida, January, 2006), p. 3.

[3] Ibid.

Agency Information

Agency Information

Agency at a Glance

The Texas Facilities Commission manages the office space, construction, and facility needs of Texas state agencies. To accomplish its mission, TFC carries out the following key activities:

- maintains and operates 134 state-owned office buildings, facilities, and properties, primarily in the Austin and Travis County area;
- manages state agency construction and deferred maintenance projects;
- provides comprehensive property management services to state agencies; and
- assists state agencies with determining their office needs, and manages a large leasing portfolio.

Information on TFC's facilities management services is available at www.tfc.state.tx.us.

Key Facts

- **Funding**. In fiscal year 2008, TFC operated with a budget of about $163.2 million, of which about $93.8 million was General Obligation bond funding for deferred maintenance. About $521,600 in funding passes through directly to the Texas State Cemetery.
- **Staffing**. TFC has 474 employees, of which 152 are contracted employees provided by janitorial and grounds keeping companies.
- **Facility Design and Construction**. The agency is managing 77 construction projects valued at almost $404 million, and 56 deferred maintenance projects costing more than $87.6 million.
- **Property Management**. In fiscal year 2008, the agency completed about 47,000 work orders for client agencies and TFC's own properties.
- **Space Management and State Leasing**. TFC manages a portfolio of about 980 leases costing $112 million a year, providing 10.2 million square feet of space for 36 state agencies.

Major Events in Agency History

1919 The Legislature creates the State's first agency to purchase supplies and construct state buildings by consolidating 21 agencies into the State Board of Control.

1979 The Legislature changes the State Board of Control to the State Purchasing and General Services Commission, which also operates a state store and repairs business machines.

1991 The agency's name changes to the General Services Commission (GSC), and its governing board expands from three to six members.

2001 The Legislature abolishes GSC and creates the Texas Building and Procurement Commission (TBPC), and transfers its telecommunications functions to the Department of Information Resources.

The Legislature focused TFC on facilities management in 2007.

2007 The Legislature transfers the agency's procurement functions to the Comptroller's Office and renames TBPC the Texas Facilities Commission to reflect its core function of building, leasing, and maintaining facilities for state agencies.

Appendix C, on page 33, shows a history of changes to TFC's functions from 2001 to 2007.

Organization

Policy Body

A seven-member Commission governs the agency. The Commission consists of all public members with five appointed by the Governor, including two members from nominees submitted by the Speaker of the House; and two members appointed by the Lieutenant Governor. By law, the Governor and Lieutenant Governor must attempt to appoint women and members of minority groups.

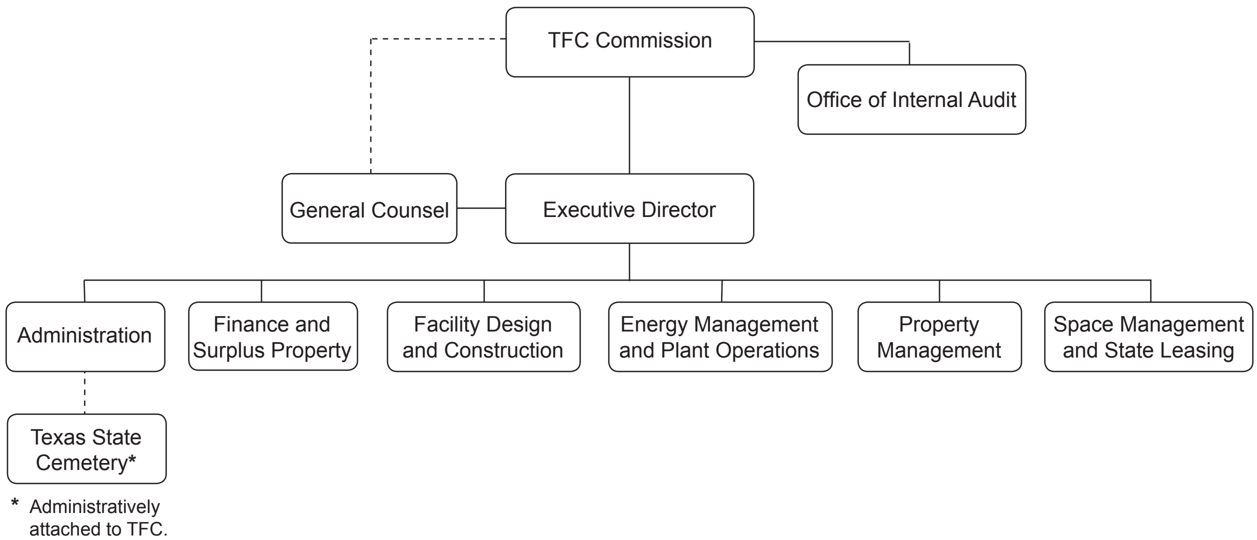
Texas Facilities Commission

Member	City	Term Expires
The Honorable Betty Reinbeck, Chair	Tomball	2011
Malcolm Beckendorff	Houston	2013
William D. Darby	Houston	2009
Virginia Hermosa	Austin	2009
The Honorable Victor Leal	Canyon	2009
Barkley Stuart	Dallas	2011
Vacant		

Staff

The Commission has 474 full-time employees, of which 152 are contracted custodial and grounds maintenance staff. Most TFC employees work in TFC's Austin offices, however 26 staff work in separate surplus property offices located in Austin, Houston, Fort Worth and San Antonio. Also, one employee each works in TFC buildings in Waco and Fort Worth. The Executive Director, under the direction of the Commission, manages the agency's day-to-day operations and implements policies set by the Commission. The chart, *Texas Facilities Commission Organizational Chart*, depicts the agency's structure, including administrative attachment of the Texas State Cemetery.

Texas Facilities Commission
Organizational Chart



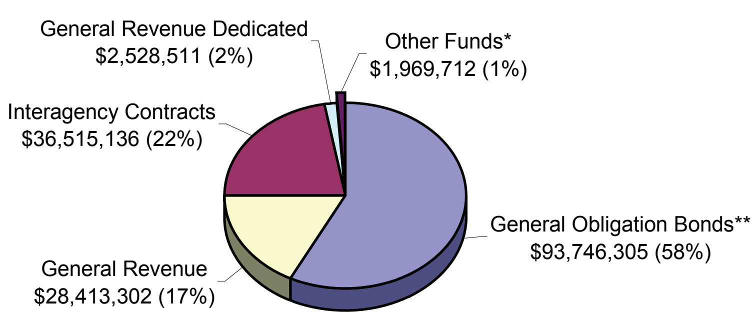
Funding

Revenues

As shown in the pie chart below, in fiscal year 2008 the agency's operating budget totaled about $163.2 million. TFC's budget exceeded its fiscal year 2008 appropriations of $136.5 million by $26.7 million, due to receiving about $24.3 million more in interagency contract revenues than expected, and carrying over bond funding from previous years. TFC's budget includes about $93.8 million in general obligation bond funding primarily for deferred maintenance and asbestos abatement. A significant portion of funding also comes from General Revenue.

TFC's budget exceeds appropriations due to funding from many interagency contracts.

Texas Facilities Commission Revenues
FY 2008



Total: $163,172,966

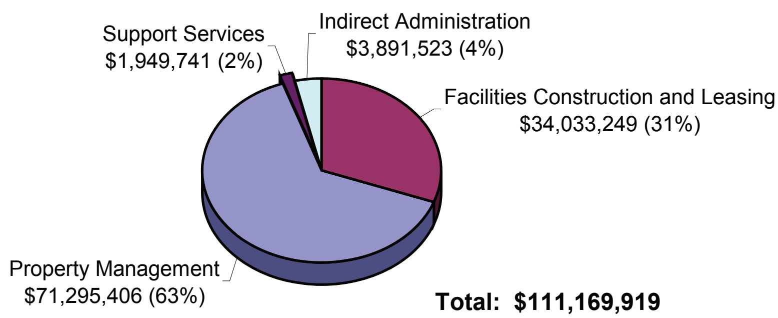
* Includes $1,921,849 in appropriated receipts and $47,863 in federal funds.
** Includes $469,686 in revenue bonds.

Expenditures

In fiscal year 2008, the agency spent about $50.6 million to support its direct operations, including approximately $18.9 million in utility costs for TFC-owned buildings. The pie chart below shows that by strategy, the agency spent about $111.2 million overall. While TFC's general obligation bond funding totaled about $93.8 million, TFC has spent $41.7 million and is awaiting authority to spend another $36 million.

TFC is still awaiting authority to spend some bond funding.

Texas Facilities Commission Expenditures FY 2008



Agency Operations

The Texas Facilities Commission manages 134 state-owned buildings and facilities, mostly in the Austin and Travis County area, where approximately 100 agencies with about 21,258 employees. These properties provide the State with about 5.17 million square feet of usable office space, and are shown in the chart, *TFC Owned and Managed Properties*.

TFC Owned and Managed Properties FY 2008

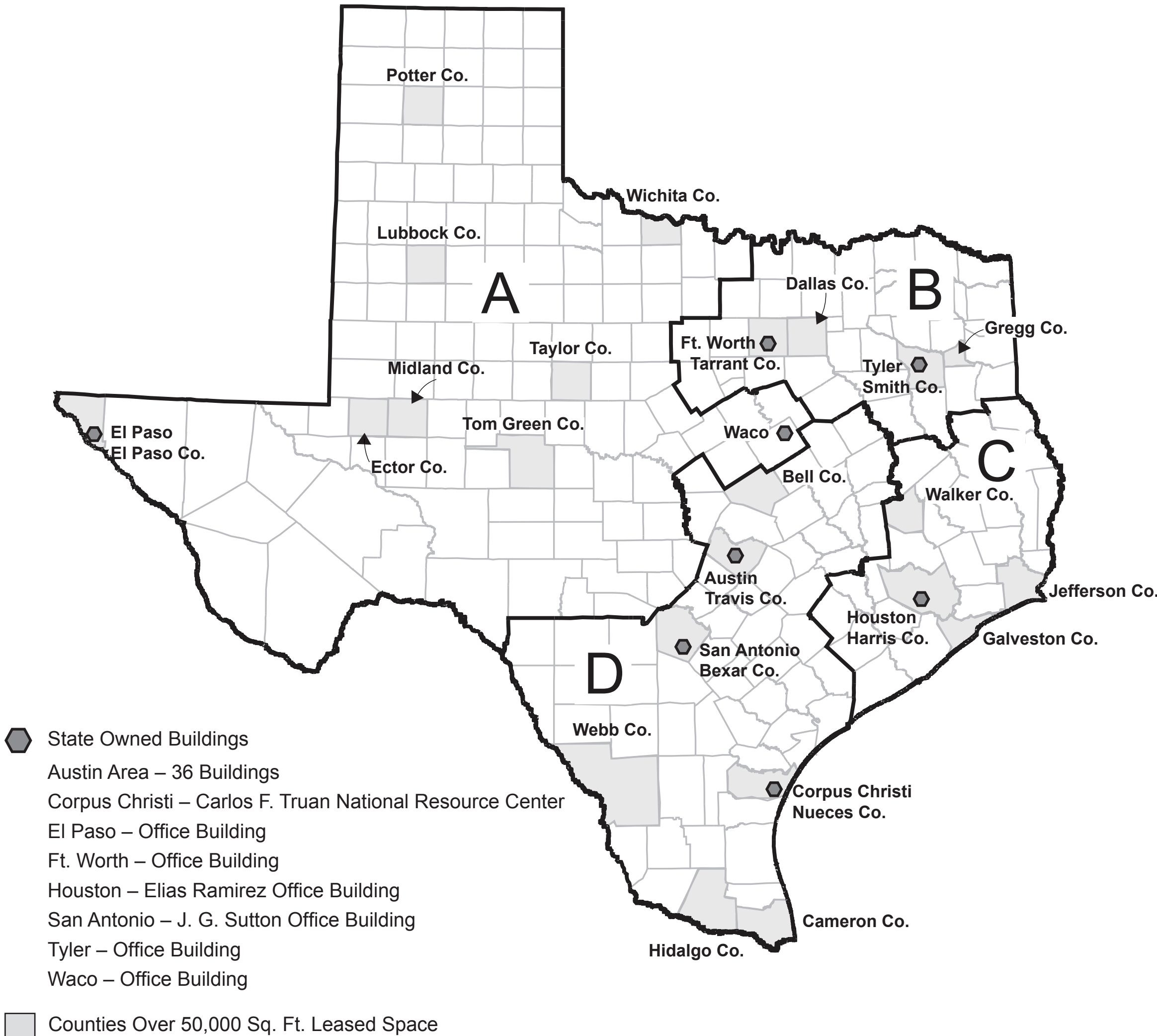
Type	Number
Office Buildings	43
Parking Lots	33
Parking Garages	18
Warehouse and Storage	8
Power Plants	6
Aircraft Related	3
State Cemetery Land	2
Child Care Buildings	2
French Legation Buildings*	2
Land	1
Other	16
Total	**134**

* State owned but controlled by the Daughters of the Republic of Texas.

TFC also manages about 980 leases providing 10.2 million square feet of office space for 36 agencies in Austin and around the state. The map, *Texas Facilities Commission Regions, Buildings, and Leased Space*, shows the location of TFC-owned buildings and counties where TFC manages more than 50,000 square feet of leased space. As a service agency, TFC also assists state agencies with their design and construction project needs, maintains major systems in state-owned buildings, and provides routine grounds keeping and custodial services.

While TFC provides facilities management services for most state agencies, TFC's duties do not extend to buildings and facilities owned or operated by numerous state entities, as shown in the chart, *Buildings Exempt From TFC Management*. Also, statute authorizes the

Texas Facilities Commission Regions, Buildings, and Leased Space



Commission to delegate control of state buildings and grounds to agencies with ability to take on this responsibility, however it has yet to do so.

The Commission also operates the Texas State and Federal Surplus Property program, which allows state agencies, political subdivisions of the state, and service organizations to obtain surplus property at reduced prices. The Energy Management and Plant Operations Division provides technical assistance on energy efficiency technologies, manages utility usage in TFC buildings, and conducts maintenance on major building systems.

Buildings Exempt From TFC Management

Statute exempts the following entities and buildings from TFC's management services:

- Texas Department of Criminal Justice,
- Texas Youth Commission,
- Texas Department of Transportation,
- Texas Historical Commission,
- Capitol Building and Extension,
- Governor's Mansion,
- Bob Bullock State History Museum,
- General Land Office Building,
- state agency regional or field offices,
- facilities located in state parks,
- institutions of higher education, and
- military facilities.

Facility Design and Construction

The Facility Design and Construction Division operates with 41 staff and provides design and construction project management services for client agencies, and for TFC's own projects. The chart, *TFC Construction Projects*, shows that the agency is managing 77 projects with a total value of almost $404 million. Key construction projects involving TFC include several Texas Department of Public Safety crime labs, a Texas School for the Blind and Visually Impaired instructional building, and a Department of State Health Services 75-bed hospital.

TFC Construction Projects – FY 2008

Client	Number	Amount
Texas Department of Public Safety	29	$232,142,038
Texas School for the Blind and Visually Impaired	25	$97,930,720
Department of State Health Services	7	$48,173,972
Governor's Mansion	1	$8,500,000
Texas Facilities Commission	12	$6,095,579
Comptroller's Office	1	$6,497,744
Texas Commission on Environmental Quality	1	$3,599,780
Texas Retirement Services	1	$900,000
Total	**77**	**$403,839,833**

The Facilities Commission does not construct buildings for client agencies; instead staff manage these projects in partnership with client agencies and contracted providers. TFC works with client agencies to develop project analyses that agencies use to seek appropriations. After agencies obtain funding, TFC continues its involvement by overseeing contractors providing architecture, engineering, and construction services. After a facility is constructed, TFC oversees installation of furniture and equipment, and turns over operations to the client agency.

The Division also manages TFC's deferred maintenance projects, costing more than $87.6 million, funded mostly by General Obligation Bonds. The chart, *TFC Deferred Maintenance Projects*, shows the number and types of these projects. TFC identified $381.5 million in deferred maintenance projects needed over the next 10 years ranging in severity from critical and immediate needs, to necessary and recommended maintenance.

TFC Deferred Maintenance Projects – FY 2008

Type	Number of Projects	Amount
State Buildings	38	$68,992,865*
Texas State Library and Archives Commission	2	$15,611,674
TFC Fire Alarm Systems	1	$2,114,179
Texas State Cemetery	3	$806,000
Parking Garages	12	$86,930
Total	**56**	**$87,611,648**

* Includes the Stephen F. Austin building $24.8 million deferred maintenance and renovation project.

Property Management

The Property Management Division operates with 262 staff, of which 152 are contracted janitorial and grounds keeping employees. TFC building managers interact with client agencies to help meet their needs for maintenance, repairs, and minor construction; and security for buildings outside the Capitol Complex. The Division provides routine maintenance, repair, janitorial, and grounds services for all TFC-managed facilities. The agency contracts for similar property management services for state buildings in Corpus Christi, El Paso, Houston, and San Antonio.

TFC completed more than 47,000 work orders in fiscal year 2008.

The Facilities Commission has interagency contracts with 16 state agencies for property management and minor construction services, billing these agencies almost $3 million for services in fiscal year 2008. In the same year, TFC completed more than 47,000 work orders for client agencies and its own buildings, including minor construction, carpentry, painting, electrical, plumbing, HVAC, and custodial services.

Space Management and State Leasing

Space Management and State Leasing Services has 12 staff managing the office space and leasing needs of 36 state agencies. The agency's lease portfolio includes 10.2 million square feet of space costing about $112 million annually. Of total leased space, 2.7 million square feet is in Austin and Travis County, costing about $32 million annually. About 55 percent of TFC's lease portfolio consists of space leased for the Health and Human Services Commission. When an agency requests space TFC must first attempt to provide state-owned space. Because little state-owned office space is available, most requests result in TFC leasing to meet an agency's needs. Facilities Commission staff work with client agencies to determine office specifications and identify a suitable space. TFC then submits a request for proposal for the lease requirements and negotiates final lease terms with the winning bidder. After signing a lease, TFC monitors the property monthly.

TFC's lease portfolio costs about $112 million a year.

Appendices

Appendix A

Sunset Survey of Texas Facilities Commission Customers

To supplement this study, Sunset staff designed an Internet-based survey to obtain input from Texas Facilities Commission (TFC) customers – the state agencies and their employees that receive TFC property management services. In October, 2008, Sunset sent this survey to 492 state agency employees that interact with TFC in the areas of maintenance, grounds keeping, repairs, construction, and leasing. Sunset received 165 responses, or a 33.5 percent response rate.

In summarizing results of the survey questions and comments, Sunset staff found the following regarding TFC's management of state facilities.

- In rating TFC's overall quality of services, 50 percent of respondents said the agency is doing a good to excellent job, and 34 percent said the agency is doing an average job. Several comments complimented TFC building managers, indicating that having a personal contact within state buildings is beneficial to customer service.
- Numerous comments indicated that TFC could improve communication with staff of client agencies, for example by responding more quickly to emails, informing agencies of changes in service delivery, providing updates on the status of repairs and projects; and providing more useful information on billing invoices.
- In rating TFC's leasing services, while a small number of respondents answered, 61 percent said the agency is doing a good to excellent job overall, and 49 percent rated the agency as good to excellent in providing timely services. However, several comments indicated that TFC could do a better job of listening to, and incorporating, the needs of client agencies into leasing decisions.
- In rating TFC's maintenance of state buildings, 43 percent of respondents said the agency is doing a good to excellent job, with another 37 percent indicating an average job. However, several comments indicated that since moving to contracted custodial and grounds keeping staff the overall quality of these services has declined.
- In rating TFC's timeliness in providing maintenance and repair services, 49 percent of respondents said TFC is doing a good to excellent job, and 60 percent said the agency is completing emergency repairs in less than one month.
- Several comments indicated that some agencies feel they have the expertise and ability to manage their own maintenance, construction, and space needs. Of respondents answering these questions, 23 percent said they could do their own maintenance, 25 percent construction, and 31 percent leasing or purchasing space.

In calculating the above percentages, staff did not include respondents that answered "not applicable" or did not respond to that question. The chart on the following pages, *Survey Results,* shows the survey questions and responses. The chart also contains selected comments from state agency staff on how TFC's approach to managing state buildings and facilities could be improved. Sunset staff did not attempt to verify the comments and does not represent them as facts.

Appendix A

Survey Results

Question	Responses
1. Please rate the quality of Texas Facilities Commission services to your agency overall.	13.9% – Excellent 36.7% – Good 34.2% – Average 13.3% – Below average 1.9% – Poor
2. Overall, how would you rate TFC's current process for maintaining state agency buildings?	8.4% – Excellent 31.2% – Good 33.8% – Average 13.0% – Below average 5.8% – Poor 7.8% – N/A 11 respondents did not answer
3. How timely is TFC in meeting your agency's need for maintenance and repairs?	20.5% – Excellent 28.2% – Good 26.9% – Average 10.9% – Below average 4.5% – Poor 9.0% – N/A 9 respondents did not answer
4. About how long does it take TFC to complete emergency repairs you have requested?	60.4% – Less than one month 8.4% – 1-3 months 1.9% – 3-6 months 0% – 6-12 months 0% – more than 12 month 29.2% – N/A 11 respondents did not answer
5. In your opinion, does your agency have the expertise and ability to manage its own building maintenance and repair needs?	23.4% – Yes 47.4% – No 22.1% – Not sure 7.1% – N/A 11 respondents did not answer

Appendix A

Survey Results (continued)

Question	Responses
6. How would you rate TFC's performance in completing construction projects on time and within budget?	8.6% – Excellent 24.3% – Good 23.7% – Average 9.9% – Below Average 2.6% – Poor 30.9% – N/A 13 respondents did not answer
7. In your opinion, does your agency have the expertise and ability to manage its own building and construction needs?	21.3% – Yes 52.3% – No 12.3% – Not sure 14.2% – N/A 10 respondents did not answer
8. Overall, how would you rate TFC's timeliness for leasing building space for your agency?	8.7% – Excellent 12.7% – Good 14.7% – Average 2.7% – Below Average 4.7% – Poor 56.7% – N/A 15 respondents did not answer
9. What word best describes how TFC has performed in managing your agency's leasing needs?	9.3% – Excellent 18.7% – Good 12.7% – Average 4.7% – Poor 54.7% – N/A 15 respondents did not answer
10. In your opinion, how well does TFC ensure that your landlord follows though with tenant improvements?	4.7% – Excellent 19.3% – Good 11.3% – Average 9.3% – Below Average 2.7% – Poor 52.7% – N/A 15 respondents did not answer

Appendix A

Survey Results (continued)

Question	Responses
11. In your opinion, does your agency have the expertise and ability to manage it own needs for leasing and purchasing building space?	21.7% – Yes 29.6% – No 17.1% – Not sure 31.6% – N/A 13 respondents did not answer
12. How could TFC's approach to managing state buildings be improved? The following is a sampling of answers. ◆ I think if a request to TFC is made, then an email or status update to the requestor would be helpful. For example, if a request is made and a courtesy email is sent indicating an approximate timeframe on when the request will be taken care of would greatly help our office. This way we know when to expect a maintenance person in our office. ◆ TFC Facility Management needs more staff and financing consistent with maintenance and repair needs of the state owned buildings it manages. Facility Leasing needs more staff and a more cooperative relationship with customer agencies to provide leases that are cost effective and meet agency needs. The evaluation of lessor performance, capability and history needs more emphasis in the RFP evaluation process as does the condition of buildings and their location. ◆ The Leasing Division manages ~1,400 leases with very dedicated, but limited staff and resources, which contributes to the lengthy process to secure lease space. Elimination of redundancies in the Leasing and Space Allocation processes and delegation of leasing authority to agencies with in-house real estate expertise and abilities could help alleviate the workload and improve efficiencies. ◆ Remove the bureaucratic lengthy process that one has to go through to obtain services. The agency feels as if they have a right and first and final decision to all state property leasing of space and maintenance of buildings and no one can change their minds on decisions made. ◆ It has been helpful to have a TFC on-site building manager at our facility. We believe the less favorable ratings on this survey are due to a lack of facility enhancement resources, which are beyond the building manager's control. Because the building is more than 20 years old and little has been done to renovate the facility, a number of issues have impacted our perception about how well TFC is meeting our needs: 1) The restrooms (e.g. plumbing, fixtures, sinks, counters and so on) have deteriorated. Low water pressure in the toilets and urinals is a big concern; they do not flush property and are often out-of-order. 2) The original carpet remains throughout most of the building and it is worn and stained. 3) The elevators are often broken resulting in longer wait times. We appreciate this opportunity to provide feedback. ◆ TFC is very quick to respond to emergency repair requests – usually the same day or next depending on the urgency. TFC might do a better job in state space analysis before adding leased space. TFC desperately needs ADEQUATE appropriations for building maintenance – for things as simple as window washing and striping parking areas to extended building maintenance issues like painting, carpeting, "flatwire" replacement (electrical), HVAC, plumbing systems. They should also be funded to build and replace existing systems with those that promote energy conservation.	

Survey Results (continued)

Question	Responses
◆ I think that TFC is managing our facility quite well. We have to contact them for various issues with the building and have had superb response. Especially with a recent water leak that covered several floors, as they were here in minutes from receiving the report. ◆ There is too much indecisiveness and too many process/procedures in getting repairs. We still have a hallway that leaks when it rains and it has been that way for over four years. The air quality has been up in the air for years in the building and we cannot get a decision as to how to fix it, so people are being sent home to work. Frankly, we have about given up hope of any real repairs being completed. ◆ Like in the private sector, allow agencies to select from a pool of prequalified contractors for minor construction projects. TFC would provide an estimate for the minor construction and provide oversight and/or project management. The agencies would pay TFC for the construction and TFC would pay the contractors. ◆ There are two problems with having TFC manage the building. First, when something goes wrong, we call them and they call the vendor. This delays the resolution. In addition, TFC sends someone out with the vendor who is making the repair. So we pay TFC for their employees (sometimes two employees) time, as well as being billed by TFC (as part of our annual bill) for the vendor's charge. ◆ Custodial staff should be a little more proactive in cleaning and maintaining the building. For example, they should not wait for an agency to call to clean spots on carpet or other obvious cleaning needs. We should not have to go in a public bathroom and have some reluctance to use it. Keeping our infrastructure properly maintained will save us from major repairs in the future.	

Appendix B

Outsourcing of Facilities Leasing in Selected States

Sunset staff researched lease management functions in numerous other states. Sunset found several states that outsource this function to private firms using different approaches. The chart, *Sampling of States That Outsource Leasing Services*, contains information on how eight different states use firms to provide leasing services to tenant agencies.

Sampling of States That Outsource Leasing Services

State	Role of Agencies and Firms
California FTEs for Leasing: 83 Number of Leases: 1,900	**Role of agency:** The Real Estate Services Division (RESD) and contracted private brokers work with tenant agencies to locate sites and negotiate leases, but tenant agencies keep in contact with landlords. RESD manages the lease portfolio. RESD delegates leasing authority to agencies for smaller leases – up to 3,000 sq. ft. with rents $50,000 or less, and terms no longer than three years. **Role of firm:** RESD contracts with several firms that work with RESD statewide. RESD relies on firms for research and planning and other services, such as construction document preparation, site inspections, and project coordination. Private brokers must both participate in RESD training, and offer training to RESD staff.
Colorado FTEs for Leasing: 2 Number of Leases: 600	**Role of agency:** The Office of the State Architect (OSA) sets leasing policies; approves leases; coordinates with contracted firms; maintains property inventory; and reports lease information to the General Assembly. **Role of firm:** Contracted firms work with tenant agencies to negotiate with landlords and draft leases. With few exceptions, all state agencies and institutions must use contracted firms when leasing or purchasing property in counties covered by contracts.
Florida FTEs for Leasing: 7 Number of Leases: 940	**Role of agency:** Agencies find and negotiate their own leases, but the Bureau of Lease Management (BLM) approves any lease of more than 5,000 square feet. For leases under 5,000 square feet, tenant agencies follow BLM guidelines and BLM files leases on the State's behalf. **Role of firm:** BLM has contracts for tenant broker services with three statewide firms, which tenant agencies may use.
Michigan FTEs for Leasing: 15 Number of Leases: 600	**Role of agency:** The Department of Management and Budget (DMB) sets leasing policies, conducts space planning, approves all leases, and coordinates with contracted firms. **Role of firm:** DMB contracts with firms to work with tenant agencies to locate facilities and negotiate leases for the entire lease portfolio.

Appendix B

Sampling of States That Outsource Leasing Services

State	Role of Agencies and Firms
Missouri FTEs for Leasing: 31 Number of Leases: 600	**Role of agency:** The Office of Administration (OA) sets leasing policy, locates property, and negotiates leases for tenant agencies. **Role of firm:** OA occasionally contracts with a private firm as a consultant for large lease consolidations and facilities purchases, but does not use private brokerage services on a regular basis.
New York FTEs for Leasing: 45 Number of Leases: 605	**Role of agency:** The Office of General Services (OGS) sets leasing policy, locates property, and negotiates leases. Several state agencies must approve the leases. **Role of firm:** OGS contracts with a private firm to manage a portion of the state portfolio, based on OGS's need for this service.
Pennsylvania FTEs for Leasing: 7 Number of Leases: 550	**Role of agency:** The Bureau of Real Estate (BRE) works with tenant agencies to locate property and negotiate leases. Leases must receive legal and budgetary approval before being approved by a state leasing board. **Role of firm:** BRE contracts with private firms for large lease consolidations and large facilities purchases.
Virginia FTEs for Leasing: 17 Number of Leases: 1,200	**Role of agency:** The Division of Real Estate Services (DRES) purchases or leases land and buildings, and leases extra space. DRES researches properties, negotiates leases, and administers leases over their term. **Role of real estate firm:** DRES contracts with several firms, including brokerage companies, architectural firms, and appraisers to assist with providing services to tenant agencies.

Appendix C

Transfer of Texas Facilities Commission Functions 2001 to 2007

General Services Commission (GSC)

FY 2000 Budget: $151 million, FTEs: 811

Key functions:

- construct and renovate state buildings
- manage and maintain state buildings
- lease buildings for state agencies
- manage state/federal surplus property
- procure goods and services for state agencies
- provide statewide contract management
- administer HUB program
- provide telecommunications for state agencies
- maintain Governor's Mansion
- maintain Capitol Complex historical properties

Texas State Cemetery (TSC)

Texas Council on Purchasing from People with Disabilities (TCPPD)

SB 311 (Sunset Bill), 77th Legislature 2001

Texas Building and Procurement Commission (TBPC)

FY 2002 Budget: $54 million, FTEs: 688

Key functions:

- construct and renovate state buildings
- manage and maintain state buildings
- lease buildings for state agencies
- manage state/federal surplus property
- procure goods and services for state agencies
- provide statewide contract management
- administer HUB program
- maintain Governor's Mansion
- maintain Capitol Complex historical properties

TSC

TCPPD

Council on Competitive Government (CCG)

Department of Information Resources (DIR)

FY 2002 Budget: $84 million, FTEs: 200

FY 2002 budget for GSC functions: $78 million

FTEs for GSC functions: 108

Functions transferred from TBPC*:

- **provide telecommunications for state agencies**
- **establish e-procurement and e-commerce services**

* HB 3560, 80th Legislature, transferred these functions to the Comptroller's Office in 2007.

HB 3560 (Rep. Swinford), 80th Legislature 2007

Texas Facilities Commission (TFC)

FY 2008 Budget: $136.5 million

FTEs: 474

Key functions:

- construct and renovate state buildings
- manage and maintain state buildings
- lease buildings for state agencies
- manage state/federal surplus property

TSC

Texas Comptroller of Public Accounts

FY 2008 Budget related to TFC: $13.6 million

FTEs for TFC functions: 114

Functions transferred from TFC:

- **procure goods and services for state agencies**
- **provide statewide contract management**
- **administer HUB program**

Functions transferred from DIR:

- **provide e-procurement and e-commerce services**

CCG

TCPPD

State Preservation Board

FY 2008 Budget: $14.3 million

FTEs: 98

Functions transferred from TFC:

- **maintain Governor's Mansion**

$35,500 in bond proceeds transferred from TFC

Texas Historical Commission

FY 2008 Budget: $117.7 million

FTEs: 221

Functions transferred from TFC:

- **maintain Capitol Complex historical properties**

$698,000 in bond proceeds transferred from TFC

Appendix D

Staff Study Activities

During the Texas Facilities Commission study, Sunset staff engaged in the following activities. Sunset staff worked extensively with agency personnel; reviewed agency documents, reports, databases, state statutes, legislative reports, previous legislation, and literature; researched the organization and functions of similar state agencies in other states; and performed background and comparative research using the Internet.

In addition, Sunset staff also performed the following activities unique to this study of the Texas Facilities Commission.

- Worked extensively with staff of the State Auditor's Office.
- Received information from staff of the Legislative Budget Board.
- Interviewed staff from the Comptroller's Office, the General Land Office, the Council on Competitive Government, and the State Energy Conservation Office.
- Conducted an Internet-based survey of Texas Facilities Commission client agencies, and interviewed staff of some of these agencies.
- Interviewed firms providing asset management services and software systems.
- Attended Legislative committee hearings.
- Participated in a conference on state procurement held in Austin, Texas.
- Participated in an Internet-based seminar on asset management.

Sunset Staff Study of the Texas Facilities Commission

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