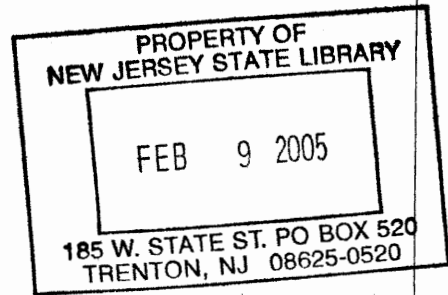




STATE OF NEW JERSEY
DEPARTMENT OF THE TREASURY
OFFICE OF MANAGEMENT AND BUDGET



Report
on
State Leasing

Prepared by:

State Leasing Program
Review Team

August, 1992

EXECUTIVE SUMMARY

This report was prepared in response to Governor Florio's request that the Chief Legal Counsel M. Robert DeCotiis and State Treasurer Sam Crane initiate a review of the state's program of leasing office space and make recommendations for improvement.

The study focused on the Office of Leasing Operations (OLO), within the General Services Administration, which is the organization charged with primary responsibility for the acquisition and management of the state's leased space. However, to make recommendations for improvement it was necessary to look at the leasing process within the context of the management of all state occupied space.

The findings of this study center around two basic themes: space needs are responded to rather than planned for, and the mechanisms needed for effective and efficient space management are limited. A summary of the major findings and recommendations resulting from this study follows.

Findings: There is no clear policy on space management, no statewide facilities planning and no identifiable unit responsible for statewide space management.

Recommendations:

- o Develop a cogent space management policy which establishes the philosophy, principles and standards for decision making.

- o Create a Space Management and Planning Board within Treasury that will have the final authority to make and direct the implementation of statewide space management policy and decisions and to resolve major impasses between GSA and client agencies.

- o Compile and annually update an approved statewide master plan for all facilities used for the conduct or support of state business. The plan should address all contingencies, including status quo, retrenchment and expansion.

- o Establish a function within Treasury which would support the Space Management and Planning Board by developing and recommending a space management policy, a statewide master plan, and by providing analysis as required.

- o Establish a central location within General Services Administration where all requests for space allocation will be reviewed for conformance to policy and plans and then assigned, as appropriate, for processing.

- o Conduct an organizational study of the facilities related divisions of GSA to identify functional economies and opportunities for improved coordination of services.

Findings: Decision making for statewide space management should be strengthened. There is no process that requires agencies and GSA to perform a space utilization assessment of current property prior to a decision to secure additional space; no documented, consistently applied methodology on which to base lease vs. own decisions; no disincentives to agencies for poor space planning/decisions and no integrated space management information systems for decision making. It was also found that there is confusion regarding GSA's authority to enforce space management decisions and uncertainty in their balance between service and control.

Recommendations:

- o Establish a space management process to evaluate first whether new space is needed to satisfy a request and if yes, what option (lease vs. owned) should be used. The resulting analysis should

be submitted to the GSA Administrator and OMB Director for review and approval prior to the development of a Notice of Proposed Lease.

- o Design comparative analysis methodologies to assess leasing vs. owning options to satisfy a space need.

- o To heighten awareness of the consequences of poor space planning establish a disincentive program that has financial repercussions for an agency if it unilaterally decides to vacate a leased space prior the expiration date it had required.

- o For long term management information systems improvement - develop an integrated Space Management Information System to support effective space planning and management. The space inventory component should assemble key data elements on all state owned, leased or lease-purchase space, regardless of its occupancy status, condition, current usage, funding or occupant; this component should also provide utilization information by capturing occupancy data with current tenant detail. Evaluate the plausibility of developing a space availability component.

- o For short term management information systems improvement - complete the development and implementation of the Lease Management Information System by developing a project plan for completion, extending internal and external user accessibility, and updating and validating all LMIS records.

- o Compile and evaluate statutory and regulated powers of the GSA Administrator and other agents of the Treasurer and issue a Treasury circular outlining the authorities for space management.

Findings: The leasing process itself could benefit from more competition, standardization and timeliness. There is no uniform process, including guidelines and procedures, for making site selection decisions; advertising is used to obtain general information on space availability but a competitive selection process for a particular site is rarely done; disclosure procedures need to be examined for consistency with the intent of existing regulations; and the legislative approval process can be very lengthy.

Recommendations:

- o Increase the role competition plays in site selection by establishing a competitive leasing process. Develop a Request for Proposal (including detailed specifications and evaluation criteria), announce the state's intent to release the RFP by advertisement, distribute the RFP to vendors responding to the advertisement, establish an evaluation committee and document the committee's deliberations as part of the NPL package.
- o Initiate a pilot program, using commercial real estate companies to perform site selection, evaluation and negotiation functions, who would be under contract to the state and selected through a competitive process. Before this pilot commences, the state should establish the parameters of the pilot including timeframes and evaluation criteria for both vendor performance and program effectiveness.
- o Initiate a pilot program using a competitive process to contract for ancillary (non-rent) services associated with leased property. Establish criteria for vendor performance and pilot effectiveness.
- o Incorporate additional language into the lease that further defines the lessor's disclosure obligations.

o Revise the current disclosure form so that it provides information on debarment and identifies those individuals with a one percent or more share of ownership who may be subject to the New Jersey Conflict of Interest Laws.

o Annually update disclosure information with all lessors of record and create a database of all owners and corporate principals disclosed on state leases.

o Submit all disclosure forms to the Commission on Ethical Standards for conflict of interest review.

o Revise the Notice of Proposed Lease (NPL) package to eliminate redundant information, include more documentation on the various properties considered, clearly present the options examined with cost benefit analysis for each, and add projections of the total lease cost through the end of the lease or for a minimum of five years.

o Revise the NPL legislative review process to improve timeliness by establishing a standing committee to review NPL's on a monthly basis; providing a timeframe for legislative approvals based on various lease parameters; and suggesting to the Legislature the appointment of the State Auditor as their designee to approve leases.

Findings: The rent budget requires refinement; lease information on the New Jersey Building Authority (NJBA) properties is not part of LMIS; and there are several alternative methods of direct budgeting which could serve to highlight fiscal responsibilities.

Recommendations:

o LMIS should contain all the information that is on the actual lease documents so that the rent projection will be as complete as possible.

- o OLO should document what assumptions are incorporated in the rent projection methodology and research how these assumptions and ensuing projections could be improved.

- o Coordinate changes that are made to the LMIS program with the stand-alone rent projection program to ensure that the budget assumptions are properly implemented.

- o To improve the accounting/billing process, OLO should report to OMB and Treasury Fiscal any changes in leasehold occupancy, give Treasury Fiscal ownership of those LMIS subsystems that relate to expenditures and billings and revise LMIS to have account number identification/history capability.

- o To improve space planning and the collection of non-state funds, LMIS should maintain full occupancy and account assignment data on all New Jersey Building Authority properties.

- o Thoroughly explore the benefits and liabilities of all the direct budget alternatives and do a comparative analysis against the central budgeting mechanism now in place.

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1.0 INTRODUCTION

1.1 Background

In April, Governor Jim Florio requested that the Chief Legal Counsel M. Robert DeCotiis and State Treasurer Sam Crane initiate a review of the state's program of leasing office space and make recommendations for improvement.

The Office of Leasing Operations (OLO) is the organization charged with primary responsibility for the acquisition and management of the state's leased space. It is located within the General Services Administration (GSA), Department of the Treasury. Through its five bureaus and its total staff of sixty-three, OLO evaluates and selects sites, negotiates leases, does renovations to new and existing space, manages the lease, monitors lease contracts, and coordinates moving services and vacating of leased space.

The state currently manages 569 leases statewide, encompassing a total of 11.2 million square feet of space. Of this total 8.3 million square feet comprises office space and 2.9 million comprises land, warehouses, day care centers, prisons, boat slips, laboratories, etc.

The property rental budget for FY 1992 as shown in the Adjusted Appropriation column of the FY 1993 Budget is \$216.2 million, of which \$177.1 million is a direct state appropriation and \$39.1 million is anticipated recoveries from non-state fund sources.

1.2 Objective

The objective of the project was to examine and document the process for leasing space, in order to provide recommendations for reform. To satisfy this objective, it was necessary to

focus not only on the actual process for acquiring space but on on the systems supporting the process as well. Those include the Lease Management Information System, the payment system for rental billings, and the systems for making management and policy decisions.

1.3 Report Structure

In addition to the Introduction the report is divided into four sections containing substantive areas related to the leasing program: Leasing Process, Management Issues, Management Information Systems, and Central Rent Budget and Funding Issues. Each section contains background, findings and recommendations related to the topic area.

1.4 Methodology

A project review team from within Treasury, led by the Office of Management and Budget, was established to conduct the review.

The study approach included the following activities:

- Reviewing background information including organization charts, internal memorandums, executive orders, impacting legislation, the 1980 Report of the Task Force on Human Relations, GMRC report on State Facilities Maintenance, operating procedures, Masterplan documentation, statutes, budget submissions, data processing systems specifications, job specifications, federal circular letters, leasing files, prescribed forms, and other relevant material.

- Conducting extensive interviews. A total of 45 interviews were conducted. Interviewees included the Assistant Treasurer with oversight of leasing operations; the GSA Administrator,

Deputy Administrator and other GSA managers with responsibilities related to, but outside of, leasing operations; management and staff of the Office of Leasing Operations; Treasury fiscal and data processing staff involved with the rent budget program; management and staff of the Office of Management and Budget; the Director of the Executive Commission on Ethical Standards; the Deputy Attorney General for leasing; staff of the Office of Legislative Services; and partisan legislative staff.

Members of the State Leasing Program Review Team included:

Susan Maurer, Manager - OMB Management and Internal Auditing
Judith Colnaghi, Review Team Leader - OMB Management Consulting
Kathleen Baker, OMB Budget and Planning
Gene Berman, OMB Information Consulting
Ted Kukowski, OMB Budget and Planning
Melissa Nowalinski, OMB Internal Audit
Robert A Preston, OMB Budget and Planning
Janet Rebilas, GSA Office of the Administrator
Keith Van Sickle, Treasury Human Resources
John M. White, OMB Budget and Planning
Cathy Zelinski, OMB Information Consulting

2.0 LEASING PROCESS

Background

The goals and objectives of the Office of Leasing Operations (OLO), within the General Services Administration, in the Treasury Department are: to provide state agencies with appropriate leased space through the Central Rent Account; to coordinate the leasing of space with legislative and executive initiatives regarding program implementation and urban redevelopment; and to continually ensure that space is leased in accordance with actual requirements.

To carry out these objectives, OLO consists of five bureaus handling statewide leasing operations from the initial agency request, through the negotiation and lease execution process, to the monitoring of landlord compliance with lease terms. The five OLO bureaus and a summary of their respective responsibilities are outlined as follows:

○ **Facilities Planning** is responsible for the design of internal office space, including furniture and interior layout; coordination for procurement of architectural services and approval of all statewide furniture purchases. This bureau has a staff of twelve.

○ **Lease Negotiations** is responsible for regional consolidations, market research, site selection and evaluation, and preparation of the Notice of Proposed Lease (NPL) in addition to conducting actual lease negotiations. This bureau has a staff of eleven.

o Lease Construction is responsible for project management of lease facilities prior to occupancy and for renovations to new and existing space, code enforcement, construction estimates, project close-out and construction verification. This bureau has a staff of six.

o Lease Compliance manages the lease, monitors lease contracts for janitorial services, effects minor alterations and repairs and is also responsible for fire and life safety administration. They also coordinate moving services and vacating of leased space. This bureau has a staff of twenty one.

o Administration and Fiscal handles the financial operation of the leasing office including the payment of operating escalations, construction costs and utility payments. They also monitor rent budget expenditures. This bureau has a staff of five.

In addition to an operating staff of fifty-five as outlined above, the Director's Office has a staff of eight, including the Director. The Director's staff coordinates consolidations, prepares the rent budget, administers personnel and other internal procedures. The total staff of OLO is sixty-three. (The table of organization for OLO is presented in Appendix A)

2.2 Findings

This part of the report describes various components of the leasing process with associated findings and conclusions, as appropriate.

Throughout the project, the review team was impressed by the dedication, concern and high level of professionalism demonstrated by the management and staff of the Office of

Leasing Operations. They expressed a willingness to invite an objective critical review of the leasing program and a desire to support improvement.

2.2.1 Space Planning Request Process

A Space Planning Request (SPR) is used to initiate the lease negotiation process and provide standardized information on requests for relocations, additional space (both new and same locations), new space or renewals. The SPR can be initiated and submitted by the agency based on its internal space needs; or OLO can sometimes be the catalyst of the SPR in instances relating to lease reduction initiatives (consolidations) or other legislative or executive initiatives.

The agency will complete and submit the SPR in accordance with procedures promulgated by OLO. Annual training is provided to agencies on the procedures for properly completing the SPR.

All completed SPR's are forwarded to OLO for initial processing by an analyst on the Director's staff, who:

- reviews the SPR to determine if the request is properly completed;
- maintains and updates an automated SPR tracking system;
- assigns a five digit tracking number;
- enters SPR data into LMIS (Leasing Management Information System); and
- prepares a SPR transmittal form summarizing the pertinent information, as well as GSA comments.

When the analyst completes his review, a copy of the SPR is returned to the agency as a reference and the actual SPR is forwarded to Treasury - Office of Management and Budget (OMB) for review. The OMB approval process is described by OMB as follows:

In OMB, the SPR is logged in and distributed to the appropriate budget analyst for review. The analyst verifies account numbers, source and sufficiency of funds. The SPR is then forwarded to the Deputy Director, OMB for approval. The Deputy Director reviews the notes/recommendations made by the budget analyst and, if appropriate, approves the SPR. Once approved by OMB and logged out, the SPR is returned to OLO for processing.

A conflict exists between what OMB verifies and what OLO thinks OMB verifies regarding staffing levels. OMB has indicated that they do not have adequate information in all cases to be able to verify staffing in the location. This issue will be addressed in the recommendations section of this report.

After the SPR is approved by OMB, it is forwarded to the GSA Administrator for approval. This approval process is outlined as follows:

The GSA Administrator refers the SPR to his Executive Assistant for additional analysis. Both the OMB and OLO comments are reviewed and the SPR information is checked for any internal inconsistencies. If necessary, either OMB or OLO will be contacted for additional clarification.

Once approved by the GSA administrator, the SPR is returned to OLO and logged in by the analyst. At this point the SPR is formally approved and is forwarded to the Bureau of Lease Negotiations, the assigned negotiator or, for all new leases, the Bureau of Facilities Planning.

If an SPR is returned to OLO as not approved by either OMB or the GSA Administrator, the original SPR is sent back to the agency as not approved. In addition, the OLO analyst maintains a copy of the disapproved SPR and voids it from the LMIS system.

2.2.2 Lease Negotiation Process

The lease negotiation process begins with the approved SPR. The negotiation process is dependent upon whether the projects are routine or are considered part of a consolidation or other special project. Currently there are no formal procedures to identify which projects are assigned to the Director's support staff or to the Bureau of Lease Negotiations for negotiation.

There are four negotiators assigned to the Bureau of Lease Negotiations in addition to the Chief. In most cases these negotiators are assigned by region and negotiate routine or smaller projects. Occasionally, due to workload the Bureau Chief will also take on some direct negotiation projects.

Most consolidation projects are coordinated by a member of the Director's staff. Other larger or sensitive projects may be negotiated by the Director,

Manager of Lease Procurement or Executive Assistant. These assignments are made at the discretion of the Director.

2.2.3 Inventory of Space Availability

Previously, there were no standardized statewide inventories of space available. Since negotiators were assigned by region, OLO relied upon their expertise and knowledge and that of the support staff. It was the negotiators' responsibility to maintain a regional inventory of vacant state owned and leased space, as well as privately owned vacant space available for possible leasing by the state.

Recently, however, OLO has obtained a list of vacant state owned space from the GSA Bureau of Facilities Management and maintains other records on vacant leased space. For the leasing of all new space, the SPR is first routed to the Chief of the Bureau of Facilities Planning. The Chief, if appropriate, will then determine and suggest the possibility of existing owned or leased space. In some cases this is more difficult than it sounds because OLO first must convince the resident agency to agree to readjust existing space and/or allow another agency to "coexist" in the same area.

In recent months, OLO has begun to advertise to build up an "inventory" of privately owned space available for leasing to the state. In addition, to the advertisement OLO always takes calls and referrals from anyone interested in leasing space to the state. Being

added to the inventory, however, does not in any way guarantee that the space will be subsequently leased to the state. This determination is made during the negotiation process.

2.2.4 Negotiation Process - Routine Projects

Once the SPR is approved, it is forwarded to the Chief, Bureau of Lease Negotiations for assignment to the appropriate negotiator. The negotiators are assigned by region. Negotiations are required for all new space, as well as renewals of space where prior contracts do not include set renewal options. Because of current economic conditions, however, OLO is also attempting to renegotiate renewal contracts with set renewal options to obtain the best available price for leased space. At the request of the lease negotiator, the Bureau of Lease Compliance will conduct site inspections for all leases up for renewal prior to the negotiation process.

The negotiators are responsible for identifying site options, presenting them to the agency, coordinating agency inspections of the sites and negotiating price and other options with the landlord. There are no set procedures or guidelines for this process. However, the negotiator meets weekly with the Bureau Chief and monthly with the Manager who review and approve the selections and other work being completed by the negotiator.

As previously indicated the SPR for all new projects first goes to the Bureau of Facilities Planning. This Bureau is responsible for developing design criteria for meeting agency space needs. Facilities Planning

will work with the agency and possible landlords to develop floor plans and assist in the selection process.

Once sites are identified, based on the negotiator's regional knowledge of the area, the negotiator works with both the landlord and the agency regarding the best selection. The negotiator needs agency approval of the site selection to move forward with negotiations. Working with the agency, sites are narrowed and, if more than one site is considered acceptable by the agency written proposals may be obtained. There are no formal procedures that require written proposals; currently they are obtained at the discretion of the negotiator. Based on site inspections, agency input, written proposals (if appropriate) and economic considerations, the selection is narrowed to one site. If construction or renovations are needed The Bureau of Lease Construction is also notified for input.

Formal lease negotiations are conducted by the negotiator with various input and supervision from the Chief, Manager and other support staff. There is ongoing communication maintained within OLO. When negotiations are complete the negotiator will prepare the Notice of Proposed Lease Package (NPL). Unless written proposals are obtained the actual negotiation process is not formally documented but rather summarized in the NPL package, Memorandum of Record.

2.2.5 Negotiation Process - Consolidation and Special Projects

As previously indicated, consolidation projects are assigned to a member of the Director's staff. In most

cases OLO acts as the catalyst for these projects in response to lease reduction and economic development initiatives. Therefore, OLO is involved throughout the development stages of the process establishing initial contacts with the Administrator's Office, Treasurer's Office, representatives of local municipal government and the state agencies involved.

Although consolidations are assigned to the Director's staff for coordination, numerous OLO staff from the Bureaus of Lease Negotiations, Facilities Planning, and Construction lend expertise to the project as appropriate. In addition, consulting firms are hired for technical services, such as architects.

The course that consolidation projects will take may differ from project to project depending on several factors relating to the type of project that is being considered. When appropriate, however, OLO will conduct a competitive selection process for consolidation projects.

The competitive process starts with a newspaper advertisement which lists space requirements, location and other special accommodations needed. This advertisement is used to solicit financial and background information on interested firms. A Request for Proposal (RFP) is then forwarded to all firms that were considered responsive to the initial advertisement.

The proposals are evaluated and ranked by an evaluation team made up of representatives from the agencies involved in the consolidation, the GSA Administrator's Office and OLO. The proposals are ranked based on economic and project quality considerations. An

analysis of the competitive process with recommendations is forwarded to the Treasurer's Office for approval prior to preparation of the NPL. Included in this analysis is a cost benefit and net present value analysis of the three highest ranked proposals.

When a competitive process is not used, the consolidation/special projects proceed in the same manner described in the section on lease negotiations routine projects. However, in the case of larger special projects, the market survey, site selection, and the actual lease negotiations will be conducted by the Director, members of his staff or a combination thereof.

2.2.6 Notice of Proposed Lease

Once the site and lease terms have been found acceptable to the agency and OLO, a Notice of Proposed Lease (NPL) is prepared in the Bureau of Lease Negotiations and submitted for Treasury approval (GSA, OMB and Treasurer) and legislative approval (President of the Senate and Speaker of the General Assembly).

The NPL package contains:

Face sheet The cover page which contains four approval signatures, State Treasurer, Director of OMB, President of Senate, and Speaker of General Assembly. The approvals are "as to content and a waiver of advertising pursuant to N.J.S.A. 52:34-8 and 52:34-9 (c)." The GSA Administrator also reviews and signs the NPL Face Sheet as the person forwarding the document.

Fact sheet A summary of present lease vs. proposed lease, comparing term, area, rate per sq. footage, and other informational items.

Memorandum of Record A summary of the SPR and current location history, description of subject municipality, area commercial leasing market, site search, terms and conditions, economic analysis, and recommendation.

Negotiations Report Sheet A summary of the proposed lease compared with other state leases, either those directly in the area or similar leases located out of the area.

Lessor's proposal The written proposal from the prospective landlord.

Lease A copy of the proposed lease plus any accompanying schedules.

Copy of Disclosure Statement A notarized statement submitted by the prospective lessor, indicating all principals and criminal history if any.

Payee Sheet Name, address and Federal Identification Number for monthly rent payment and annual 1099.

Affirmative Action Affidavit Acknowledgment of lessor's awareness of P.L. 1975. c.127 and the rules and regulations issued by the State Treasurer regarding Affirmative Action.

Space Planning Request A copy of the original signed SPR is included.

The NPL is internally reviewed by OLO. The Manager of Lease Construction determines if any construction work is needed and verifies costs. The NPL is also reviewed by the Manager of Lease Procurement and forwarded to Director of Leasing Operations. Once released by OLO the NPL is forwarded to the GSA Administrator for review and signature. The GSA Administrator's Executive Assistant verifies the NPL for accuracy and soundness of the proposal.

At any point during the executive and legislative approval process, NPLs can and have been returned for additional clarification and/or modification.

The NPL package is submitted to the Director of OMB and the State Treasurer for approval. The Director of OMB or his designee reviews the NPL for consistency with the original SPR and funding availability.

The NPL approval process also includes drafting of the actual lease document, which upon all Treasury approvals, is submitted to the Office of the Attorney General for legal review. The assigned Deputy Attorney General (DAG) reviews the lease for legal content; if questions arise concerning contract terms, OLO is called for further clarification. In the case of a more complex leasing deal the Deputy Attorney General will sit in on negotiations. The DAG also reviews the disclosure statement for completeness. A prime concern is that all owners be identified by name. If the lessor

indicates a criminal history or the DAG has questions on the ownership, it is referred back to OLO for additional information. Once additional information is obtained by OLO it is forwarded to the DAG for opinion and recommendation.

There is an expanded disclosure statement accompanying current leases which requires more information on potential lessors. It does not, however, ask if a lessor has been debarred from doing business with the state. (A more comprehensive discussion on disclosure is contained in Section 3.2.8.)

The NPL, containing a copy of a draft lease document, is submitted to the Office of Legislative Services (OLS), concurrent with the lease submission to the DAG for review. The NPL is then forwarded for legislative approval to the Senate President and Speaker of the Assembly.

OLS logs in the NPL and completes an analysis of the prospective lease based on the reviewer's knowledge of current real estate market trends and costs. If the reviewer recognizes a questionable name on the disclosure statement it is flagged for further study. The OLS reviewer provides a summary memorandum for the Legislature with recommendations.

The NPL is then forwarded to either the Senate President or Assembly Speaker for approval and signature. Once returned the NPL is again logged in at OLS and submitted for the second legislative approval. There is no order to which legislative body the NPL is first forwarded. The turnaround time once the NPL is sent to the Legislature varies from weeks to two years.

Many times premises are occupied by state agencies on a month to month basis with the understanding that the lease is not executed by the state until those signatures are obtained.

The NPL is reviewed by legislative aides. The aides have indicated that they do not have the time or expertise to conduct an in-depth technical analysis of the NPL. This contributes to the long delay in getting Senate and Assembly approval of the leases. The aides, however, do review the disclosure statements and request additional information as necessary.

During the legislative approval process the original draft lease, after receiving the approval of the Deputy Attorney General, is forwarded by OLO to the lessor for final review and execution. (It is the lessor's responsibility to also secure additional signatures as required by the Mortgagee.)

When the NPL is fully approved, OLO submits the lease, returned by the lessor, to the GSA Administrator for final signature.

Once finalized, the NPL is forwarded to Lease Construction for implementation of required alterations and/or renovations. In some leases where the NPL is held up in the approval process, month to month occupancy can be authorized by the Director of OLO with OMB and the Treasurer's approval. However, it is preferred to have full NPL approval and lease execution before authorizing construction and/or renovation. Lease Construction monitors the construction and renovation of the leased space, assuring that

compliance is maintained with current construction code standards as well as the state's defined specifications within the lease and all applicable health and safety laws. The Bureau of Lease Construction authorizes payment of rent upon completion of the the construction, allowing occupancy by the agency.

2.2.7 Lease Management

Once the agency has moved into its location, the Bureau of Lease Compliance manages the lease, acting as a liaison between the agency and the landlord, assuring that the agency and landlord comply with the terms of the lease and that operating expenses are maintained within the operating budget. The inspectors visit each location at least once a year.

A Tenant Service Request (TSR) must be submitted by an agency for alterations or repairs. The TSR's are reviewed by the Bureau of Lease Compliance. Lease Compliance will check the lease to verify whether the landlord is responsible for the work or if a state contractor will be used. This bureau is also responsible for all janitorial, refuse, moving and recycling contracts with the state for leased property. The inspectors "informally" monitor the vacancy/occupancy of leased space. They inform Facilities Planning whenever they see vacant space, however there is no formal process.

2.3 Recommendations

2.3.1 Space Planning Request Process

The approval section of the SPR should be re-designed to include statements describing what each approver is

attesting to when he/she reviews the SPR. This should be accompanied by a formal policy statement outlining the approval responsibilities of each party involved in the process.

(Other recommendations regarding space planning are found in Section 3.3.2)

2.3.2 Lease Negotiation Process

OLO should develop more formal policies and procedures for the assignment and responsibility of lease negotiation projects. This policy would serve to clarify the method of assignment for both the staff and other interested parties. A standard policy prevents the perception that any outside influence directs the assignment of projects.

2.3.3 Inventory of Space Availability

OLO should develop a formal record of vacant state owned space, as well as vacant leased space.

(This recommendation is dealt with fully in Section 3.3.5)

2.3.4 Negotiation Process - Routine Projects

Develop a more formal competitive process for all lease negotiations. (This recommendation is discussed fully in Section 3.3.7)

In instances where a formal RFP process is not used, standard internal OLO forms should be developed to better document the site selection and the market

survey process. This could include a list of all possible sites being considered with justifications why sites are dropped from consideration.

OLO should continue to advertise to build up an inventory of private space available. This inventory should be made readily accessible to the negotiator.

Since OLO is dealing with the real estate market on a continuing basis, professional education and training guidelines should be developed for staff involved in the site selection and negotiation process. Qualifications and requirements for the positions should be reviewed with DOP, in light of the work performed. Formal credentials or licensing should be considered.

2.3.5 Negotiation Process - Consolidations and Special Projects

Although OLO is currently using a competitive process for some consolidations, it is recommended that they expand the use of the competitive process as the standard, documenting the justifications for any deviation from that standard. (See Section 3.3.7)

2.3.6 Notice of Proposed Lease

Revise the NPL package:

- Eliminate redundancy of the information presented in the fact sheet, memorandum of record and the negotiations report sheet.

○ Include more documentation on the other properties considered during the negotiation.

○ Clearly present various options examined with cost benefit analyses for each.

○ Present projections of total lease costs through the end of the lease, or in a longer term lease, a minimum of five years into the lease. This information could also be provided for the properties not chosen during the negotiation process.

Revise the NPL legislative review process:

○ Establish a standing committee to review NPLs on a monthly basis to speed up the approval process and improve the understanding of the NPL content. The membership of the committee could include: an OMB representative, an OLS reviewer, legislative aides, and the State Auditor.

○ Establish a time frame for legislative approval based on lease parameters (i.e. square footage, dollar amount, term). For example, if an NPL is for 10,000 square feet or less and has a term of five years or less, the NPL will automatically be considered approved after 90 days of its transmittal to OLS unless otherwise notified by the Legislature. The time frame of this automatic approval procedure can increase based on the square footage and term of the NPL. Approval for smaller projects, as well as month to month leases, could be delegated to the executive branch.

o The Legislature should designate the State Auditor to approve leases. It would then be the task of the State Auditor to brief the legislative leadership on the leases and meet any time frames established for approval.

3.0 MANAGEMENT ISSUES

3.1 Background

This section examines overall space management from a statewide perspective. The broad policy issues, strategies, and decision making process regarding how space needs are satisfied will be explored. Other relevant management and policy issues are also examined.

3.2 Findings

This part includes findings, discussion and conclusions as appropriate.

3.2.1 Policy Issue: There is no clear and comprehensive space management policy.

The growth of leasing as the space acquisition method of choice, and the increase in the central rent budget, resulted from conscious decisions and initiatives on the part of the legislative and executive branches which effectively formed the currently recognized public policy on the management of space in New Jersey.

Initiatives that have impacted the cost of space include: legislative mandates and building code enhancements (BOCA, UCC, Rehabilitation Act of 1973, ADA, etc.) that require improvements of substandard space, and improvement in the quality of the work environment in response to the Report of the Cabinet

Task Force on Human Relations (May 1980) which cited poor working conditions as a primary contributor to the 1979 union job action.

Factors that impact the number of leases include: the limitation placed on the New Jersey Building Authority's bonding capacity (\$250 million cap); former Governor Brendan Byrne's executive order, which is still in effect, that directs state offices to maintain a presence within urban areas for economic development; and coupled with the latter, the recognition that state owned space within urban areas tends to reduce the tax base to the cities.

All of these factors helped to shape public policy in the past, and for the most part, agencies and General Services Administration (GSA) still operate under their influence. There has not been any analysis of the impact of these policies.

3.2.2 Planning Issue: There is no statewide facilities planning.

Between 1986 and 1988 a Trenton Complex Master Plan did exist. It was originally intended to be the foundation for a major statewide master plan development effort which never came to fruition. The plan was never formally approved nor was the concept developed further.

Without a clear statement of space policy and an approved and generally recognized statewide plan, each agency request for space is, by default, evaluated on

its own merit, not necessarily on how it fits into the state's long term interests or goals.

There is no formal review process, within the agencies, for the internal evaluation of space utilization; there is no GSA policy or procedure requiring agencies to do so. There is also no disincentive to prevent poor planning and the wasteful use of space on the part of agencies. Rental payments are made from an interdepartmental account, not an agency's budget. As a result, a financial consequence is not readily apparent.

Agencies have varying levels of sophistication in their ability to accurately plan for and articulate their needs. The agencies have instructions on how to fill out a space request form, but not on how to do space planning.

3.2.3 Organizational Issue: There is no identifiable unit responsible for statewide space management.

The Trenton Complex Master Plan was developed when there was a Facilities Planning unit within the General Services Administration (GSA), separate from the GSA operating units responsible for carrying out the plan. In 1988 this unit was disbanded.

Since 1988 there has not been a central unit whose focus was on the overall space needs of the state. GSA organizational units were rearranged over time and are currently fragmented, each with its own mission: Bureau of Real Property Management is neither organizationally nor procedurally linked with the other

facilities related units, the Office of Leasing Operations (OLO), Facilities Management and the Division of Building & Construction (DBC) are organizationally, but not procedurally linked. There are elements in each organization that may overlap and/or could be used as shared resources: Lease Construction within OLO may overlap DBC Construction Management in some ways; Computer Aided Design (CAD) operations within OLO could be used to support the other facilities related divisions; interior design services within OLO could be shared with the other facilities divisions.

Recently, GSA placed a Deputy Administrator over three of the above-cited organizations in what is assumed to be the first step in coordinating the functions.

(See Appendix B for the table of organization for GSA)

3.2.4 Lease versus Own Issue: There is no documented, consistently applied methodology on which to base crucial lease versus own decisions.

One of the key front-end decisions that must be made for space management is whether to lease or own a facility. In the private sector, these decisions are generally driven by economic factors, cost-benefit analyses, and long and short range business objectives. In government these decisions are complicated by complex public policy and political issues that must be considered in addition to economic factors.

The Office of Leasing Operations typically performs some comparative economic analysis when evaluating various leased site options. However, the larger, and perhaps more significant decision, lease versus own, is not systematically evaluated and is not supported by any comparative or cost benefit analysis.

Often it is the unwitting selection of a form or process on the part of a requesting agency that effectively dictates how a space need will be satisfied. If the agency requests (and gets approved) a capitol appropriation, the space is usually built. If the agency files a Real Property Review form (RPR-1), the space is usually bought. If a Space Planning Request (SPR) form is submitted the space is leased, or, in some cases, borrowed from one of the capitol complex buildings. In some cases the lease (via SPR) option is exercised because the agency did not adequately plan for the space they needed for a new or expanded program and now must act quickly. Sometimes this is done without a clear understanding of what options may exist for filling their need. Other times it is a deliberate decision based on availability of current appropriations.

In contrast, the Federal Office of Management and Budget published a circular (#A-104; 6/1/1986) which ". . . prescribes a method for the economic analysis that should be conducted when considering whether to use leasing in place of direct government purchase and ownership as a means of acquiring the use of assets." The circular contains formulas and detailed standard financial analysis of all quantifiable factors which

are intended to determine whether it would be cheaper to lease or own a given asset. Non-economic and public policy considerations are not addressed in the federal circular.

Influencing the issue is the fact that municipalities often prefer that the state be a tenant rather than an owner for tax revenue reasons. As a tenant, the state generally pays the full property tax liability on the ratable building it occupies through a portion of its rent payments. As an owner, the state is exempt from normal property taxes even though some state revenues may flow to the cities as a result of the state's in-lieu-of-tax program and from extraordinary state aid grants. Neither of these substitute revenue payments guarantee the full cash amount to the cities based upon the value of the ratable, nor provide the county or schools with their fair share of ratable revenues.

3.2.5 Decision Support Issue: There is no integrated space management information system available for decision making.

There are some computerized and manual systems in existence which are utilized by various units within GSA and Treasury for specific functions (such as billing, budgeting, and interior design). These information systems are not integrated and do not support the concept of space management from a business perspective. There is a clear need for a centralized and integrated Space Management Information System focused on supporting the business of space planning and the management of all statewide space; leased, lease/purchase, and owned.

There is no centralized space inventory system.

One of the key components of effective space planning is to know what you have, and how it is being used. Interviews with various GSA units (OLO, Real Property Management, Facilities Management) reveal that no centralized integrated space inventory exists; several attempts to do so have been made in the past and failed. It should be noted that each of these units do, to a greater or lesser extent, maintain some inventory information. Unfortunately, the data maintained is often germane to the specific unit's function and is not updated regularly.

Occupancy data, though recorded when a building is initially occupied, is not routinely updated anywhere. There are various systems within GSA that could provide utilization information if occupancy data were routinely input.

Some of the existing systems that have the potential to provide inventory data are:

- The centralized Payroll System, using payroll number or check distribution number as a starting point of a personnel head count by building/agency.
- The PMIS (Personnel Management Information System), using agency codes and/or location codes as a starting point of a personnel head count by agency.
- The Treasury Fixed Asset Inventory System to collect inventory data relevant to owned buildings.
- The LMIS and supporting subsystems to collect comparative cost information, size, location and other relevant inventory related information.

- The OMB positional files to extract filled positions by agency or by organization code, as a starting point of a personnel head count by agency.
- OLO's lease compliance audit forms, add an addendum sheet to include actual occupancy level at the time of the audit and transfer these numbers to OLO's CAD files.
- Maps, blueprints, CAD drawings and/or rosters maintained within Real Property, OLO, DBC, and Facilities Management.
- The PC-based State Owned Land Inventory, currently maintained by Real Property Management, of all real property holdings (land and land with buildings) with building capacity data.

There is no central repository of vacant and available commercial property data.

OLO has developed some formal and informal sources of available commercial property. These sources include:

- personal files from unsolicited commercial broker referrals or prospectus;
- direct contacts with the commercial real estate industry;
- personal files resulting from physical inspections within their assigned geographic areas;
- responses to public newspaper advertising for commercial properties; and
- responses to competitive proposals solicited for the purpose of gathering information on the availability of space.

Other GSA units (Real Property, Facilities Management, DBC) either have lists of vacant property or become

aware of pockets of vacant property (state or privately owned) through the course of their work.

Agencies/departments, in the course of doing business in an area, or through contacts in the local community, sometimes learn about potential sources of commercial property that may meet the needs for their agency. This information is communicated formally to OLO as part of the Space Planning Request (SPR), and is considered by the lease negotiators along with other possible candidates to satisfy the request.

Overall information sources are not coordinated, and information is rarely shared between units within GSA, except on an informal and exception basis.

There may be other potential sources of vacant space or space potential from other state or local government agencies that are not currently being explored by OLO or other GSA units. For example, partially utilized military facilities, underutilized county or municipal buildings, etc., could theoretically be considered either for leasing, purchasing or cohabitation with the other government entity.

3.2.6 Authority/Service Versus Control Issue: There is confusion regarding the authority GSA has to enforce space management decisions, and the balance between service and control.

Managers within GSA, and specifically OLO, don't feel they have the power/authority to make and enforce true space management decisions. Outside of GSA, the

feeling is that GSA does have the appropriate level of authority but for various reasons (perhaps diplomatic), they choose not to exercise those powers.

A cursory review of the statutes does identify some ambiguity in authority which GSA reportedly is working to clarify. But a larger issue is the philosophical struggle within GSA between "Service" versus "Control". In the 1984 GSA consolidation and reorganization (NJSA 52:18A-178), there was a stated recognition of a need for increased service to the agencies. This service orientation needs to be carefully balanced with the business/management need to manage and control the state's resources in the most responsible way.

When agencies submit SPR's for very specific sites, GSA generally negotiates the lease, as requested, in an effort to "give the customer what (s)he wants". The agencies often claim that they have done their own market analysis and have determined that the requested site is the only one that will meet their programmatic needs. This precludes comparative analysis of other space allocation options that may be more beneficial to the state and taxpayers, and removes some leveraging power from OLO at the negotiating table, which could result in a more costly lease.

GSA has the "authority" to suggest, or even act directly on, other sites or space allocation methods that may meet the agency need (or state benefit) better than what the agency has requested. In effect, GSA can technically force an agency into a space against its will. However, doing so labels GSA "uncooperative"; a label that is contrary to GSA's pledge to provide service to the agencies.

By statute (52:31-1.1 & 1.2) all property is deeded to the state through the user agency. NJSA 52:27B-64 gives the Director of Purchase and Property the authority to "...arrange, and from time to time, rearrange, the office space assigned to the various departments and other agencies of the state government..." These various statutes create contradiction in authority: agencies feel they own the space and don't have to share it or account to anyone for it, while GSA is thwarted in their efforts to consider agency owned space when making space utilization decisions.

- 3.2.7 Site Selection Decisions Issue: There is no uniform process for making leased site selection decisions, and there is a perception by user agencies that selection decisions need to reflect a better balance between programmatic concerns and economic factors.

By virtue of submitting an SPR form, which is forwarded by design to OLO, the agency has, in effect, requested that a new lease (or lease renewal) be established. Other methods of meeting space needs are virtually ruled out.

The SPR contains all the key quantifiable information needed by the OLO negotiator to begin the process of locating possible sites to fill the agency's space request. In some exceptional cases, if there are some special programmatic requirements that the negotiator is aware of, there may be preliminary contact with the agency for clarification purposes. The SPR tells the negotiator key parameters such as staff size and make

up, and general square footage requirements, special needs, as well as where the agency wants/needs to locate.

There were concerns raised in several interviews regarding location preferences versus programmatic needs. GSA and OLO believe that they can do the best job of locating a suitable site at the best price when given the broadest possible location parameters by the agency. This optimum condition occurs if the agency defines a broad catchment area (client service area), and then allows OLO the freedom to search out and negotiate the best economic deal within that area. In some cases however, the agency stipulates a catchment area that is extremely restrictive, sometimes even insisting on a specific site.

The actual site selection process is a lengthy, highly technical, multi-tiered process that is guided only by general procedures and professional judgment on the part of the negotiator. OLO negotiators base their selection recommendations primarily on getting the best economic deal that meets the minimum space requirements, special programmatic needs of the agency and building code, building grade, and regulation requirements.

The analysis methods used for evaluating the various site proposals/alternatives are internal to OLO and are applied differently depending on professional judgment and the size of the project. On very large consolidation projects pro-forma spread sheet analyses and some interior design work may be performed by outside consultants.

It is often difficult to do comparative analysis of alternative sites because some leases include different combinations of ancillary services (janitorial, snow removal, etc...)

On occasion an agency may vehemently disagree with OLO's recommendations on site selection, and elevates the decision to higher levels of management. It is unclear how these issues get resolved, if at all.

3.2.8 Disclosure Issue: Disclosure procedures need to be examined for consistency with the intent of existing regulations.

There are regulations that may prohibit the state from entering into contracts with debarred or convicted individuals (Executive Order #34, 1976); and, in certain circumstances, with state employees, special state employees and legislators (NJSA 52:13D et al).

The disclosure form which is attached to each Notice of Proposed Lease (NPL), was developed to provide the information OLO needs to comply with regulations. It contains information on arrests, convictions, indictments and the names of anyone holding a ten percent or more in the entity seeking the lease.

There are, however, critical pieces of information that it does not capture. It does not currently ask the lessor if any owner has been debarred from doing business with the state, nor for the names of individuals with a one percent interest who may be governed by the Conflict of Interest statutes (NJSA 52:13D).

The disclosure form is reviewed by OLO staff, the Deputy Attorney General and others within the NPL approval process. OLO staff investigates questionable statements with the prospective landlord, and names are sometimes referred to the Commission on Ethical Standards for review, but there is no formal check against debarment lists, state employee rosters or criminal records.

If a name is recognized by anyone in the review/approval process as a potential problem, the NPL lease contract may still get approved if the Ethics Commission judges the relationship not to be a violation of Conflict of Interest laws, or if a conviction turns out to be unrelated to business dealings.

The disclosure form itself is difficult to read; it looks as if it were typed on a typewriter and photo-copied many times.

3.3 Recommendations

Following are the recommendations related to the findings.

3.3.1 Policy

Develop a cogent and flexible policy which expresses philosophy, principles and standards that will guide space management decisions.

Periodically review the impact of current policy and mandates to determine if they are still appropriate.

3.3.2 Planning

Create a Space Management and Planning Board within the Department of the Treasury that will have the final authority to make and direct the implementation of statewide space management policy and decisions, and to resolve major impasses between GSA and client agencies. In developing the powers and composition of the Board, consideration needs to be given to the current powers and compositions of related and existing Boards such as the Commission on Capitol Budgeting and Planning.

Compile and annually update an approved statewide master plan for all facilities used for the conduct or support of state business. Each department should be required to provide supporting data annually for their segment of the master plan as part of the budget/ planning process. The plan should cover one, five and ten year projections and include various contingencies: retrenchment, status quo and program expansion. Public policy, goals, and program priorities upon which the plan is based should be clearly stated.

Encourage a heightened awareness of the consequences of poor space planning by establishing a disincentive program that has financial repercussions for an agency. If an agency unilaterally decides to vacate a leased space prior to the date it had originally stipulated as its requirement, a financial penalty would apply. Specifically, the agency would be assessed 10-20% of the cost of the remaining term of the lease, to be applied annually against its budget. (No penalty would apply if the vacating was the result of a reduction in

force, the elimination of program funding, or a central space management decision.) The disincentive plan should also have a provision which allows the agency to escape the sanction if it gives sufficient advance notification to GSA that its space requirements are to change, and if GSA is able to find a new occupant for the space within six months of the vacancy. This would provide an impetus for agencies to report their changes in space usage early.

- o Establish a generic space allocation request process to be used by agencies; including, guidelines and procedures on how to identify and describe space needs and a single form to be used for any type of space request.

3.3.3 Organizational Issues

Establish a function within Treasury which would support the Space Management and Planning Board by developing and recommending policy, space management standards, a statewide master plan, and by providing analysis as required.

Establish a central location within General Services Administration where all requests for space allocation will be reviewed for conformance to policy and plans and then assigned, as appropriate for processing.

Conduct an organizational study of the facilities related divisions of GSA to identify functional economies and opportunities for improved coordination of services.

3.3.4 Lease versus Own Decisions

Establish a Space Management Process to evaluate first whether new space is needed to satisfy the request and, if yes, what method (lease/own options) should be used. Generally, such a process might include, but not be limited to:

- a written analysis or certification by the requesting agency that existing vacant space (both state owned and state leased) in their agency was considered before the space request was submitted;
- a survey and evaluation of existing state owned and leased facilities within the catchment area by GSA to determine if a suitable facility already exists. Such evaluation should include estimates of any necessary rehabilitation/fit up costs, which may be required;
- a written lease/own comparative analysis methodology (see recommendation below); and
- a cogent analysis report for review and approval by the GSA Administrator and OMB Director (all to be done prior to NPL).

Establish comparative analysis methodologies for evaluating whether to use leasing or owning (buy or build) options to satisfy a space need. These analysis methods should factor in the various economic advantages and disadvantages of owning versus leasing, including the economic life of the asset, the cost and availability of public financing, savings investment ratios, pay-back periods, etc. All the key

quantifiable factors (rehabilitation, fit-up, construction costs, etc.) which may impact the lease versus own decision need to be identified and weighed appropriately. Separate methodologies may need to be developed for short term (less than 5 years) and long term (5 to 10 years or more) space needs, reflecting the depth of analysis required by these different situations.

Review all existing long term leases and consider renegotiating the contracts where application of the new analysis methodologies indicate that it may be prudent to do so.

3.3.5 Decision Support

Establish a Statewide Space Management Information System which supports effective space planning and management. This system would need to be compatible with other related systems such as NJFIS and LMIS. Such a system should include:

A space inventory component: assemble key data elements on all state owned, leased or lease-purchased space, regardless of its occupancy status, condition, current usage, funding or occupant. This component might include:

- Square footage capacity and layout by building/floor
- Primary current usage (office, storage, hospital,..)
- Building condition (BOCA or ADA compliant)
- Ownership type (Leased, Owned, Lease/Purchase,..)

- o Funding (Capitol Appropriation, Federal, Central Rent,..)
- o Other relevant data deemed necessary

A space utilization component: capture occupancy information, including the current tenants. The method of collecting and maintaining occupancy data of this nature must be crafted to enlist the help and support of client agencies while giving GSA the authority to obtain the data. Where it is practical to do so, the appropriate GSA Bureau should perform an annual physical inventory. For example, OLO could incorporate an occupancy inventory as part of its annual Lease Compliance survey (on-site inspection). Facilities Management needs to do the same. Where a physical inventory is not practical, inventory data could be collected by requesting client agencies to provide building/floor personnel and space utilization inventory data through a joint request from GSA/OMB as part of their annual budget request.

Explore existing sources of commercial space and evaluate the plausibility of developing a commercial space availability component. Conceptually, this government oriented "Multiple Listing Service" would consist of collecting all sources of commercial property from a wide variety of sources into a data base of available commercial property. In addition to the current traditional sources, e.g. commercial brokers, advertisements or under-utilized state owned/leased buildings, other potential sources should be polled as well, including Economic Development within the Commerce Department, Community Affairs Department, local governments, state owned

institutions, quasi-state agencies, the military, the federal government, Chambers of Commerce, PSE&G, and others. The value and advisability of developing and maintaining such a centralized data base of all prospective property leads will require further analysis.

Evaluate existing automated and manual data systems and determine what usable information can be extracted and utilized on an interim basis to help improve the current information and decision support systems. There may already be useful data contained within existing data systems that can be pulled together and employed as tools to implement a total space management concept.

3.3.6 Authority/Service Versus Control

Compile and evaluate statutory and regulated powers of the GSA Administrator, Director of Purchase and Property, and other agents of the Treasurer and develop a Treasury policy statement (circular) outlining the authorities for space management.

Develop and document a space management process that is consistent with current authorities invested by the law, and is responsive to the programmatic needs of the agencies. (see recommendations under 2.3.3)

Remind/alert agencies on a regular basis of the dangers of discussing leasing plans with landlords or potential landlords. The agencies are not authorized to bind the state in a contract, and their discussions with landlords could be illegal as well as inappropriate.

Revisit the statutes (NJSA 52:31-1.1 & 1.2, and NJSA 52:27B-64) that require state owned property to be deeded through the user agencies, especially as they relate to effective and efficient management of space statewide.

3.3.7 Site Selection Decisions

Develop a system to assure that vacant state owned/ leased space was reviewed and considered as the first step in a site selection search.

Increase the role competition plays in the selection of leased sites using a methodology such as:

- Work closely with the user agency in clearly identifying bona fide space needs and mutually developing specifications on which vendors would base their proposals.
- Create a comprehensive Request for Proposal (RFP) that includes rental costs and all direct costs associated with bringing the space into compliance with the specifications. The RFP should require that these costs be presented in a way that would facilitate the application of a standard economic analysis methodology. Ancillary services should be included in the RFP but be identified separately so that they can be extracted and awarded through a separate competitive process. Evaluation criteria in the RFP should be formulated to facilitate analysis of all proposals.
- Announce, through public advertisement, the state's intent to release the RFP.

o Distribute the RFP to all vendors responding to the advertisement.

o Establish an evaluation committee, with representatives of OLO, OMB, and the user agency, which would evaluate the proposals submitted against the evaluation criteria originally established in the RFP. The deliberations of the committee would be documented and made part of the NPL package that goes to the Executive and Legislative branches for approval.

Conduct a pilot program, using commercial real estate companies (by geographic region) to perform site selection, evaluation and negotiation functions. The consultants would be under contract to the state and selected through a competitive process. Conceptually, the real estate company would be provided with the specifications of the agency's space requirements, and, using a competitive process, provide three non-binding proposals which satisfy the space needs. If the state (Treasury and the requesting agency) found one of the sites acceptable and it resulted in a lease, the state would compensate the real estate company at some predetermined rate, e.g. a percentage of the annual rent payment. Before this pilot commences, the state should establish the parameters of the pilot including time frames and evaluation criteria for both vendor performance and pilot program effectiveness.

Conduct a pilot program using a competitive process to contract for ancillary (non-rent) services associated with leased property. This allows the lessor and other vendors the opportunity to compete for these contracts. If one specific service vendor is not performing

adequately, the state could selectively not renew that contract without jeopardizing the entire lease. Again, before this pilot commences, the state should establish the parameters of the pilot including time frames and evaluation criteria for both vendor performance and pilot program effectiveness.

3.3.8 Disclosure

Add a question on the disclosure form requesting disclosure of debarred individuals.

Check all disclosed owners against the debarment list.

Add space on the disclosure form for the lessor to fill in the names of any owners or corporate principals with a one percent share of ownership who may be in conflict with the New Jersey Conflict of Interest laws (NJSA 52:13D). ("IF YES LIST THE NAMES AND ADDRESSES OF THOSE INDIVIDUALS")

Have the disclosure form (PPR-19) professionally printed to improve the impression of importance of disclosure in the leasing process. Printing the form may be less costly than photo-copying.

Annually re-survey all lessors of record with an updated disclosure form. This would give the state the opportunity to exercise its right to consider the validity of its contract if, during the term of the lease, an owner becomes a state employee, is convicted or is debarred; or if one of these individuals buys into the lessor's partnership or corporation. This would also improve the appearance of propriety to the public.

Add language to the existing lease contract boiler-plate that further defines the lessor's disclosure obligations. By putting the verbiage in the contract, we do not have to rely on the lessor's knowledge of existing law -- we spell it out for them.

Create a database (maintained by OLO) of all owners and corporate principals disclosed on state leases. This would allow OLO to determine with whom they do the most business. It would facilitate the review of disclosure information and audits of propriety. And it would facilitate review of owners against the Ethical Standards and debarment databases (referenced above).

Send a copy of the completed disclosure form to the Commission on Ethical Standards for identification of possible conflicts of interest. This can be a parallel process.

4.0 MANAGEMENT INFORMATION SYSTEM

4.1 Background

The principal management information system of OLO is the Lease Management Information System (LMIS). LMIS originated from a Request for Proposal (RFP) issued in January 1989 to acquire professional consulting services to "...redesign the current programs and systems within the ...Office of Leasing Services...and to develop and implement a fully integrated...Lease Management Information System (LMIS) by December 1, 1989." LMIS replaced the Leased Property System which was used mainly for the OLO rent and escalator payments process.

In addition to identifying OLO inquiry and reporting requirements, the RFP required the vendor to identify, define and implement the requirements of OMB, Treasury Fiscal, and major client agencies.

At a minimum, LMIS was to provide information on: Lease/Notice of Proposed Lease (NPL)/Space Planning Request (SPR), Tenant Service Request tracking data, space availability, rent escalations and utility charges, Means cost estimating, project management, trend analysis, and Computer-Aided-Design interface.

Based on their proposal, AGS Corporation was awarded a contract in April 1989 to develop LMIS -- they proposed to complete the project in six months.

AGS was not able to honor their commitment and their contract was subsequently terminated formally in June 1991. The Chief, Data Processing Services Treasury Administration then assumed the role of project manager.

4.2 Findings

4.2.1 The Lease Management Information System (LMIS) is incomplete.

The RFP, distributed in January 1989, called for LMIS completion by December 1989. The vendor who was awarded completion (AGS) never met the time schedule and continued to work on LMIS until dismissed in June 1991.

After the vendor was dismissed, the Chief of Treasury Administration Data Processing Services undertook the task of "fixing" LMIS. To date, the LMIS is 64% complete. A total of 53 programs have been completed.

A total of 30 programs need adjustment. Tasks identified as needing to be completed include an update of lease data, debugging of two NPL inquiry/update programs, a rewrite of several SPR and NPL programs to satisfy changes in the original user required report data or formatting, the use of third party packages as a substitute for three report programs, a rewrite of two voucher programs to conform to New Jersey Comprehensive Financial System (NJCFPS) specifications to be operational by FY 94, and a selective program rewrite to improve performance. Further study is needed to determine the functionality of the screens designed by the vendor.

Approximately four months of full-time effort would be required to complete the remaining programs. However, since Treasury Administration Data Processing Services manages other GSA systems with higher priority in

addition to LMIS, no estimate for a projected completion date is available. (There is no formal project plan for the completion of LMIS).

4.2.2 The use of LMIS data is limited.

The main users of LMIS are the Bureau of Lease Negotiations and OLO executive management. The Bureaus of Lease Compliance, Lease Construction, and Facilities Planning do not use LMIS.

User access to LMIS outside of OLO is cumbersome since access is accomplished through terminals not directly linked to the IBM System 38 (S/38) and does not provide a seamless integration.

Key staff have been trained on LMIS but no formal overall staff training on LMIS access and use has been accomplished. A training plan was prepared and implemented but not completed because LMIS was not finished.

The systems handled by Treasury Administration Data Processing Services will be converted to the Digital Equipment Corporation (DEC) minicomputer environment. System 38 data base conversion to the DEC is scheduled for completion in November 1992. The DEC environment will provide user-friendly access to LMIS as well as office automation functions.

4.2.3 Some LMIS data are not current.

As discussed in Section 4.2.1, AGS re-designed the LMIS Lease module as one massive program. Actual files were converted to the LMIS file structures to test the

programs. The program "bugs" caused corruption of LMIS data. During the same time, OLO staff collected information to update the lease data on the re-designed system. Data entry was postponed when the bugs were discovered. Since LMIS is still not complete, the data collected are now out-of-date. Any future plans for data update would depend on LMIS being completed and will necessitate another data collection effort.

Some Space Planning Request (SPR) data currently reside on a microcomputer LOTUS spreadsheet file. This file monitors the movement of the SPR by logging in key dates of specific events. Once LMIS is completed this file will be linked and moved to the minicomputer environment. Users must wait until this linkage is completed to have direct access to this information.

The Lease Update program has been completed. This program provides a detailed breakdown of all lease information including rent escalation payments. Under the current LMIS, monthly escalation payments can be identified within the Accounts Payable system. Leases already on LMIS will be updated when a lease comes up for any change. It may take a one-year cycle to apply the rent escalation breakdown to all leases on the system that include rent escalation.

4.2.4 Interpretation of LMIS data differs among users.

Semantic differences exist for certain data elements in LMIS which need to be resolved. Lack of a data dictionary to validate data fields leads to misinterpretation among users.

4.2.5 LMIS data on available space are lacking.

No comprehensive computerized database exists within LMIS to satisfy the demand vs. supply for space requirements. If such an inventory database existed, the SPR could be entered on the system and matched to available space by location, space required, etc. OLO staff currently collect space availability information by soliciting for space in trade journals, by calling brokers, and by reviewing unsolicited proposals from prospective landlords. Current data on space availability are not gathered on a consistent or regular basis; the data exist in incomplete form; there may not be a central location for quick access; and there is no guarantee that information on all available space is captured.

There is no computerized monitoring of space utilization. There is no check to verify that the original request for space matches the actual physical utilization of that requested space. Monitoring space utilization dictates that a regular audit/verification process be in place. (Further discussion can be found under Section 3.2.5)

4.2.6 Current LMIS Management is distributed and not centralized.

LMIS operates on a combination of micro-computer and mini-computer platforms with a mixture of files. Different individuals in different locations are responsible for the various subsystems that comprise LMIS. While the Chief of Treasury Administration Data Processing Services is responsible for the

mini-computer operation and report production of LMIS, there is no one person responsible for managing and coordinating all of the LMIS subsystems across all hardware platforms.

4.2.7 Outputs from LMIS are not in a usable format for systems users external to OLO.

In some instances the information supplied by LMIS must be re-keyed or re-formatted to create work sheets for analysis purposes. For example, Treasury Fiscal cannot use rent projection data in its current form and must re-key data from several reports into a LOTUS spreadsheet to meet their needs. The re-keying of data is a duplication of effort, and the potential source of error.

4.2.8 The Accounts Payable Schedule information must be re-keyed on the New Jersey Financial Information System (NJFIS) for check production.

The Accounts Payable Schedule is generated from LMIS and provides the basis for payment of lease checks. This Schedule mirrors the New Jersey Financial Information System (NJFIS) form that generates the lease checks. NJFIS cannot accept a tape or disk output of the LMIS data; approximately 600 transactions per month must be re-keyed onto the NJFIS system.

4.2.9 An up-to-date long-range Information Systems Plan is lacking.

An Information Systems Plan was completed by GSA in June 1988. This Plan utilized the IBM Information Quality Analysis (IQA) methodology. IQA is somewhat similar to the IBM BSP/SA methodology. The state has

been using the IBM BSP/SA methodology, which aligns information opportunities with business objectives and strategies, as a mandated information systems planning methodology since November of 1989. The IQA study GSA performed is four years old, has not be updated, and does not contain the business strategy piece, which is especially critical for planning purposes.

4.3 Recommendations

Following are the recommendations related to the findings.

4.3.1 The Lease Management Information System (LMIS) is incomplete.

OLO should formalize the management of the LMIS project to include:

- o an assessment of the remaining work to be done;
- o establishment of a project plan which contains dates for completion of tasks, resources required, and resource responsibility;
- o scheduling frequent project status meetings with OLO management and LMIS management.

To complete LMIS, the programming resources currently assigned to LMIS development and implementation should be supplemented.

4.3.2 The use of LMIS information is limited.

Extend internal and external user accessibility after conversion from the S/38 to the DEC environment.

- o Develop a training plan for all users on all the components of LMIS that can be implemented as soon as LMIS is completed.
- o Provide training to the current users of LMIS.

4.3.3 Some LMIS data are not current.

When the LMIS programs have been completed and the system fully tested, OLO should conduct a data collection and quality control effort to update and validate all LMIS records.

4.3.4 Interpretation of LMIS data differs among users.

A LMIS data dictionary must be developed and maintained in order to manage information needs. The dictionary will keep track of where data reside, how organized, and where currently being utilized. It will provide information for the maintenance of LMIS as well as the development of new applications by providing data descriptions, data locations, and field naming conventions.

The current LMIS user manual explains how a user signs on to LMIS and moves through the system to enter and print data. This manual should be expanded to include explanations for each screen and program module's functionality and purpose as well as provide examples for usage.

4.3.5 LMIS information on available space is lacking.

More study is needed to fully investigate the possibilities for problem solution. Some suggestions are:

- o GSA may want to consider developing procedures to audit space needs vs. utilization.
- o Consideration should be given to developing a comprehensive space inventory database to include leased, owned, and private sector facilities. (Further discussion can be found under Section 3.3.5.)

4.3.6 Current LMIS management is distributed and not centralized.

Assign the responsibility of managing and coordinating all the components of LMIS to one person.

4.3.7 Outputs from LMIS are not in a usable format for systems users external to OLO.

Concurrent with the conversion of the LMIS data base from the S/38 to the DEC environment, the OLO should re-validate both the inquiry access and report requirements of external users to verify that all information needs requirements will be met by the LMIS.

4.3.8 The Accounts Payable Schedule Information must be re-keyed on the NJFIS for check production.

No immediate change is recommended based on current Treasury data processing policies on NJFIS interfaces.

This problem will be addressed when the NJFIS is rewritten; the target date for completion is July 1993. The new system, NJCFS, when completed, will provide the capability for data transfer from LMIS and will eliminate the re-keying of data.

4.3.9 An up-to-date long-range Information Systems Plan is lacking.

GSA should update their Information Systems Plan to include a review of current business strategies and development of an overall space management strategy.

5.0 CENTRAL RENT BUDGET AND FUNDING ISSUES

5.1 Background

There are three agencies within the Department of the Treasury with responsibilities and interactions related to the Property Rentals Budget. The Office of Leasing Operations (OLO) prepares the rental budget and submits it to the Office of Management and Budget (OMB). OMB makes recommendations for inclusion in the Governor's Budget. Treasury Fiscal Resources prepares monthly billings of direct charges to agencies and processes expenditures.

The Property Rentals program funding can be conveniently divided into four major components: (1) regular leases, (2) New Jersey Building Authority (NJBA) debt-service leases, (3) non-NJBA debt-service leases, and (4) other obligations.

In order to illustrate the following discussion, tables have been derived from the May 7, 1992 OLO Rent Projection Report which contains both existing and projected leases. As will be noted here and in other sections of this report, the data generated by LMIS (Leasing Management Information System) contain some technical, update, and definitional problems which require the data to be considered for presentation purposes only.

5.2 Findings

5.2.1 Rent budgeting requires refinement

The largest segment of the rent account is related to costs connected with regular leases; that is, contractual obligations for the occupation of space for

a specified period which ranges from one month upward. These costs can include not only the rental payment to the lessor, but also, depending on the contractual arrangements, associated costs such as utilities, taxes, security, janitorial services, and alterations. (See appendix C)

Identifying all the actual costs associated with a particular lease can be done only by reviewing the contract document or by reviewing the expenditures which are posted to LMIS after the fact. LMIS has not consistently captured the information that is on the actual lease document due either to data processing problems or to inconsistent updating of the system.

The LMIS expenditure data for existing leases are used in the rent projection report submitted by OLO to OMB for budgeting the rent account. The rent projection report funding is requested for existing leases and debt-service leases, approved and proposed leases, master lease and renovation and rehabilitation. This request is submitted by account number and the components are projected using certain assumptions specified in the budget request documentation.

There are some technical and methodological questions regarding whether the rent projection report programming has been adjusted to keep pace with LMIS data base changes. Additionally, while there are numerous types of leases which all require different assumptions to be made (e.g. 4% increase, no increase, etc.), it is unclear whether the rent projection report can accommodate such differences. This leads to questions regarding the accuracy of the projections.

For example, in analyzing the FY 1993 projections, there were inconsistencies in the increases and stated inflation assumptions: monthly leases were apparently inflated at 7%, rather than the 4% stated in the budget request.

As another example, the rent projection report uses the lease expiration date in its computations. It has been determined that the expiration date downloaded from LMIS was either the true expiration date or an automatic stop payment date, whichever was later. (An automatic stop-payment date is the date after which LMIS would no longer routinely issue a monthly rental payment invoice request.) The confusion in dates used caused not only some inaccurate forecasts, but confusion in interpreting the projections.

Since the rent account is funded through a combination of central and agency-based appropriations, agency billings are an important part of the rent budget lifecycle. Verification of agency funding sources is made by OMB at several points in the year. In reviewing agency billings of direct charges, three problems in timely and complete collections became apparent.

First, timely updates to the account numbers associated with leases are not occurring. OLO has acknowledged that there is no procedure in place to periodically update the account numbers due to a change in occupancy.

Second, although the Treasury Fiscal Resource organization is responsible for the billing of the agencies, only OLO has update access to the LMIS data

base which initiates such billings. Since proper fiscal accounting is not the primary priority of the OLO staff, account number changes are not performed on a timely basis leading to inaccurate billings, i.e., billings for a program no longer occupying the space.

Third, the design of the LMIS system does not allow for the assignment of accounts by fiscal year; therefore, any change made to any fiscal year, changes the data base for all fiscal years. For example, in FY 1991, the Division of Gaming Enforcement (DGE) was located in the Justice Complex and paid direct charges for the space from the Casino Control Fund. Just prior to FY 1992, DGE moved out. When LMIS omitted DGE for FY 1992, the system also deleted its entire rental history in the Justice Complex. Had this change affected FY 1993, the current year association would have been revised also and incorrect current billings would have resulted.

5.2.2 NJBA lease information is not part of LMIS

The New Jersey Building Authority (NJBA) was created in 1981 primarily to provide for the construction of state-owned office and other general use buildings through lease-purchase arrangements. NJBA issues revenue bonds backed by either a lease-purchase agreement in the case of new construction or a security interest in the property in the case of the State House renovations. In both cases, the debt service payments required to retire the NJBA bonds are funded through the rent account. At such time as the bonds have been repaid, the title of building passes from NJBA to the state or, in the case of the State House renovations, the security interest is released.

The Legislation creating NJBA required that all construction projects be approved by the Capital Commission and the Legislature. Further, the original legislation placed a \$250 million bonding cap on the authority to ensure that the state limit the amount of debt created outside the General Obligation Bond process.

In FY 1993, the state will pay an estimated \$17.5 million required for the debt service payments on the bonds which financed the construction of the DEPE Building, the Commerce Building, the DCA Building, the DOT Annex, the Pest Control Lab, the Bank Street Garage, the Legislative Staff Building, and the State House renovations/construction. Utilities for these properties are budgeted in the Utilities Account which funds the utilities of all state-owned Capital Complex properties. For municipal tax purposes, NJBA buildings, even during the period of lease-purchase, are treated as state-owned properties, i.e. they are tax exempt. Their valuation is considered in the State Aid formula for payments in lieu of taxes, and also as the basis for extraordinary State Aid payments conveyed by budget language.

Debt service payments for NJBA leases are not as complete as the other lease components of the rent budget because the properties constructed by NJBA are not being treated the same as other properties under the purview of the Office of Leasing Operations. OLO does not maintain any data on the NJBA properties in LMIS; hence, neither the square foot agency allocation nor the debt service payment by building or agency is

available for space planning or budgeting purposes. (See Appendix D part I for illustrative data on debt service payments for NJBA leases)

Although only the NJBA debt service payments pass through the rent budget, for space planning and budgeting purposes these properties should be treated no differently from the way OLO treats the Justice Complex. The Justice Complex is a lease-purchase arrangement with the Mercer County Improvement Authority for which OLO maintains full occupancy and accounting data in LMIS.

5.2.3 Other debt service obligations

NJBA is not the only lease-purchase construction financing source for state buildings. The Justice Complex and two Taxation sites are lease-purchase agreements with the Mercer County Improvement Authority. The OTIS Hub was financed by Certificates of Participation, and the Taxation Building is a lease-purchase agreement with a private vendor.

More recently, the Treasury has contracted with the NJ Economic Development Authority (EDA) to construct the Trenton Office Complex. The statutory authority of EDA is broad enough to allow EDA to redirect its efforts to assist the state in building office space.

One of the reasons that the NJBA projects require Capital Commission and Legislative approval stems from the concerns of the rating agencies that debt service payments not be entered into without substantial review and consent. Accordingly, from a public interest/

relations perspective, all such long term financing decisions should probably be subject to the same type of review process even if such is not required by law. The only downside would be if a project did involve mixed public-private development. Most private developers, given any alternative, would be hesitant to agree to what might be a lengthy bureaucratic process.

As shown in Appendix D part II, the costs associated with the non-NJBA capital leases are estimated to be \$27.5 million in FY 1993. Since the Trenton Office Complex (TOC) construction is only partially completed, the total square feet, 1,202,206, does not include TOC and is therefore underestimated. These buildings are treated as state-owned sites for utilities and are thereby budgeted in the Interdepartmental Utilities Account.

On the other hand, taxes or in-lieu-of-tax payments for these sites are budgeted in the Property Rentals budget since, unlike NJBA properties, state-ownership is not considered in the State Aid formula until such time as the title passes to the state. Accordingly, the state makes tax payments for the privately held Taxation Building on Barracks Street in accordance with its ratable status. The Trenton Office Complex in-lieu-of-tax payments have been contractually determined by the city, the EDA, and the Treasurer. The Mercer County Improvement Authority sites likewise have tax agreements binding on the state.

The fourth component of the rent budget has resulted from legislation or contractual agreement. (See Appendix D part III) The FY 1993 Property Rentals budget request includes \$14.8 million of debt-service

payments for New Jersey Sports and Exposition Authority refunding bonds and \$826,000 for a debt-service guarantee for a recent EDA Liberty State Park bond issuance.

5.2.4 Central versus direct budgeting method.

In budgeting parlance, the Property Rentals account is net budgeted; that is, the estimated cost of the leased space which will be occupied by General Fund programs is centrally budgeted in the Interdepartmental accounts, whereas the estimated lease charges associated with non-state fund (federal, fee, dedicated, etc.) programs are appropriated to the agencies. Since all lessor contracts and associated cost expenditures are presently made by the Treasury, the agency non-state funds are debited/credited to the central account for payment.

Although there is no requirement that the General Fund monies be budgeted centrally, there are statutes which specify that the Director of Purchase and Property has the authority over all owned and leased space and, according to the Attorney General's office, through the Director to the Treasurer:

NJSA "52:20-7. Control of State House and state office buildings; leasing office space

"The commission shall have custody of the state house, the property contained therein and the adjacent public grounds and all buildings owned by the state, including the state barracks, which are used by the departments, agencies and officials of the state in connection with the conduct of the state's business, and shall lease from time to time such office space as may be required for the conduct of the state's business at such terms and under such conditions as it may deem appropriate.

"Powers and duties under this section are transferred to the division of purchase and property and its director by NJSA 52:27B-64."

Note: "commission" in this section refers to the State House Commission.

NJSA"52:27B-64. Transfer of certain powers of State House Commission

"The powers and duties vested in the State House Commission by sections 52:20-7, 52:20-14, 52:20-20 and 52:20-25 of Revised Statutes are hereby transferred to the Division of Purchase and Property and to the director thereof.

"The director, with the commissioner's approval, shall to every practicable extent arrange, from time to time rearrange, the office space assigned to the various departments and other agencies of the state government in a manner to provide for the most efficient conduct of such departments and agencies."

Note: "commissioner" in this section refers to the Treasurer.

Inherent in the above -- the custody, the leasing, and the reassigning authorities/powers -- is the responsibility for managing space. Whether or not state-occupied space is presently being viewed as being managed sufficiently aggressively, management of a function usually includes fiscal accountability and control of funds as well as the authority to reallocate funds among competing interests by priority setting. With Treasury as the fiscal agent of the Interdepartmental accounts, GSA has both the statutory right to enter into space agreements and to reallocate space among agencies as well as the signatory authority to obligate funds.

Direct Budgeting Alternatives

An alternative method of budgeting would be to appropriate the lease funds directly to the agencies. The implementation could occur through various options:

- o Option One

As "nominal" appropriations, lease funds would be appropriated to the agency budgets, but on July 1, the funds would be credited to the Treasury account for payment of contractual obligations. This is similar to how telephone funds are appropriated.

If the purpose of nominal appropriation is to highlight the lease monies required to underwrite an agency's programs and to necessitate that agency defend the level of funding during the appropriations process in order to increase the level of accountability, then that same aim can be addressed by displaying in the Budget Request a table which clearly states what space and costs are associated with the agency's program. (See appendix E for an example)

To provide a finer detail of space usage below the agency level would require considerable surveying of the agencies to allocate what is now a central rent expenditure to a statewide program or program class level. Since direct billing for all space is not presently required, the account number assignment to central space is usually to few accounts. For example, the Law and Public Safety portion of the Justice Complex bears the DSS

account numbers of the Office of the Attorney General, the Division of Law, and the Division of Criminal Justice.

If such detail were required, the space data, once derived, could be shown in the evaluation data section of each budget printer sheet. A more easily derived and revisable display would be in the Interdepartmental section and show agency totals only.

o Option Two

An actual direct appropriation of funds to an agency, with assumed agency control, is another option. This can be done but would present problems of varying significance.

Currently, all regular and debt-service leases have been developed with Treasury as the contractual signator. Should an agency decide that the funds appropriated to its programs for leases would be better diverted to another purpose, the Treasurer would not have sufficient funds to meet contractual obligations.

Equally important, the concept of space management, as articulated in the statutes as a Treasury responsibility, could be thwarted. Most individuals would assume a one-to-one identity between leased site and agency occupancy, making the management of space an internal agency concern. A review of both owned and leased sites would show that this would be difficult to manage.

For example, the Justice Complex (see Appendix F) has three primary tenants with 18 separate funding sources. Were it not for the central authority of Treasury, it is likely that the reallocation of leased space from one agency to another would become as difficult as that of reallocating institutional property. Further, which agency would assume the responsibility of building maintenance and, with regular leases, of lease compliance issues?

In terms of new space needs, were the Treasury to continue to assume the space-finder/lease-negotiator role, with the funds in the control of the agency, would that agency be likely to agree with a less desirable space arrangement even though that arrangement would better suit statewide needs? In discussions with OLO, there is anecdotal evidence that agencies have hindered efforts to move into consolidated sites when they viewed their present quarters to be superior to the more cost-beneficial consolidation site. In such situations, having Treasury as both the overseer and the financier proved to be the leverage needed.

From a purely practical viewpoint, each month the Mercer County Improvement Authority and, quarterly, the City of Trenton expect to receive payments for the Justice Complex tenancy. Almost 20 separate accounts would need some sort of transaction to occur to make those payments. (See Appendix F) With some coordination of effort, only one check would be issued. Without such foresight, conceivably 18 separate checks would be sent out -- an accounting nightmare for all concerned.

o Option Three

Another alternative direct funding model with central control would be similar to that of Treasury's Office of Telecommunications and Information Systems(OTIS). OTIS is funded by budgeting directly to the agencies' appropriations an Internal Data Processing account and by establishing a receivable in an OTIS revolving account in Treasury. OTIS, by way of the receivable, has funds to allow for its day-to-day expenditures and, then, bills monthly the agencies for expenditures made in support of the agencies' programs. Since the OTIS receivable is set at the amount appropriated in the agencies' budgets, any agency-OTIS disputes in billings may be resolved by OMB's transfer of the funds from the agencies.

The OTIS model is similar to the telephone account nominal appropriation process cited above in that the agencies do not have actual control of the funds. The major differences from the telephone account model are (1) that a receivable must be established rather than expending actual budgeted funds, and (2) that an elaborate billing mechanism must be developed since the agencies have a number of whole and partial leases assigned to various program classes. Further, a central appropriation would still be required for obligations such as the Sports Authority debt service.

5.3 Recommendations

5.3.1 Rent budgeting requires refinement.

LMIS should contain all the information that is on the actual lease documents so that the rent projections will be as complete as possible.

OLO should properly document what assumptions are incorporated in the rent projection methodology and should research how these assumptions and ensuing projections could be improved to yield more accurate fiscal planning alternatives.

As changes are being made in the LMIS program, there needs to be coordination with the stand-alone rent projection program to ensure that the budget assumptions are properly implemented. The data fields in both LMIS and the rent projection report should be properly identified, utilized and displayed.

As updates are made in the rent projections, the changes made should be highlighted in the ensuing reports.

There are three recommendations which would improve the accounting/billing process: (1) OLO should report to OMB and Treasury Fiscal any changes in leasehold occupancy, (2) give Treasury Fiscal ownership of those LMIS subsystems which relate to expenditures and billings since they have a vested interest in maintaining the fiscal integrity of the system, and (3) revise LMIS to have account number identification/

history capability which would associate the account number for a lease with the time of the respective occupancy.

5.3.2 NJBA Lease Information is not part of LMIS.

LMIS should maintain full occupancy and account assignment data on all New Jersey Building Authority properties in order to manage better OLO's space planning responsibility and to collect non-state funds appropriately.

5.3.3 Other debt service obligations.

To strengthen the public confidence in the propriety of the leasing operations of the state, all lease-purchase agreements for program/office space should be required to meet the procedures set forth by statute for NJBA projects, i.e., Capital Commission and Legislative review and approval; even if financing is not provided by NJBA. Further, such presentations should include a cost-benefit study documenting the considerations of all alternative means of accommodating the space needs.

5.3.4 Central versus direct budgeting method.

There are several alternative methods of budgeting which could serve to highlight fiscal responsibility for all parties concerned. The selected method should serve to enhance agency accountability while encouraging statewide lease savings and lease reassignment flexibility.

Further discussions between OMB and the Treasurer's Office should take place to explore thoroughly the benefits and liabilities of the alternatives.

APPENDICES

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Building &
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Facilities
Management

Lease
Operations

Central
Services

Risk
Management

Purchase
Bureau

Property
Management.

Distribution
Center

Post
Office

Printing
Control

Travel
Services

Transportation
Services



Appendix C - Central Rent Expenditures by Fiscal Year

Item	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
REGULAR RENT	73,142,727.80	86,302,524.65	101,475,823.85	117,214,403.29	132,220,509.17
OVERTIME	469,215.18	244,142.66	237,838.66	212,597.74	188,709.92
ALTERATIONS	2,429,206.67	12,791,317.52	11,271,207.50	11,134,328.62	5,075,206.98
MOVING	356,955.71	684,734.73	396,866.00	442,370.61	1,598,602.16
SPECIAL EXPENSES	69,115.00	105,293.21	56,739.54	294,155.44	43,042.58
TENANT FIT-UP	0.00	0.00	0.00	7,149.00	1,486,655.59
ADVERTISING	0.00	0.00	0.00	0.00	0.00
CONSULTING	0.00	0.00	0.00	5,000.00	0.00
ELECTRIC	6,198,051.73	5,990,236.93	6,888,195.25	7,371,335.08	7,957,372.80
TAXES	2,638,494.56	2,853,503.81	3,330,885.20	3,174,077.38	4,246,070.20
JANITORIAL SERVICES	1,497,968.38	1,615,385.63	1,570,782.49	2,021,647.82	1,625,258.60
OIL	0.00	0.00	0.00	0.00	987.00
GAS	0.00	0.00	0.00	0.00	0.00
SECURITY	437,352.77	477,504.08	592,242.66	1,158,921.41	1,328,871.71
WATER	67,705.97	91,635.34	136,137.48	66,761.90	48,666.57
REFUSE REMOVAL	152,993.55	166,541.15	252,011.09	223,930.57	253,945.50
PAINTING	4,384.08	10,038.70	13,680.08	27,595.56	55,410.91
HEATING FUEL	72,006.16	356,322.82	62,272.13	79,499.76	55,763.09
SEWERAGE SERVICE	1,129.84	121.48	13,970.31	378.04	13,329.65
INSURANCE	17,859.34	13,254.09	27,186.00	12,368.00	0.00
MAINTENANCE/REPAIRS	107,423.24	98,077.27	390,749.79	340,187.37	182,722.48
SNOW REMOVAL	10,970.19	10,377.50	4,508.53	3,635.70	9,370.00
ELEVATOR MAINTENANCE	31,317.38	39,929.11	16,930.40	72,246.18	2,388.24
MISCELLANEOUS	1,063,090.23	1,151,810.18	4,199,891.17	2,129,496.05	2,393,606.96
FULL OPERATING EXPENSES	0.00	0.00	1,867.71	0.00	0.00
BLDG MGR SALARY	0.00	0.00	0.00	0.00	0.00
ELECTRIC ESCALATION	151,883.84	58,138.06	87,671.69	218,289.60	316,338.16
TAX ESCALATION	2,636,163.11	1,693,395.92	1,468,389.90	2,514,278.90	2,775,168.65
JANITORIAL SERV ESCALATION	46,453.69	44,362.85	98,263.47	93,990.00	894.28
OIL ESCALATION	0.00	0.00	0.00	0.00	0.00
GAS ESCALATION	0.00	0.00	0.00	0.00	0.00
SECURITY SERV ESCALATION	0.00	6,223.82	0.00	0.00	0.00
WATER SERV ESCALATION	4,645.80	1,971.41	6,617.21	5,784.13	0.00
REFUSE REMOVAL ESCALATION	0.00	124.80	0.00	35.50	212.97
PAINTING ESCALATION	0.00	0.00	0.00	0.00	0.00
HEATING FUEL ESCALATION	4,489.00	2,072.12	0.00	37,260.65	5,466.52
SEWERAGE SERV ESCALATION	379.33	0.00	0.00	14,948.24	3,787.28
INSURANCE ESCALATION	17,897.01	6,787.83	5,211.72	2,420.91	95,936.59
MAIN/REPAIR ESCALATION	13,462.00	22,248.28	1,781.22	7,394.00	0.00
SNOW REMOVAL ESCALATION	0.00	0.00	0.00	0.00	0.00
ELEVATOR MAIN ESCALATION	663.04	1,187.30	340.00	3,139.13	13,223.09
MISC ESCALATION	127,186.07	453,318.32	12,545.69	6,634.17	0.00
FULL OPER ESCALATION	2,945,248.71	2,276,037.76	3,686,499.26	4,256,040.43	6,307,986.00
WAGE ESCALATION	18,602.06	56,460.40	9,410.45	43,915.60	0.00
LANDSCAPING	0.00	0.00	0.00	0.00	0.00
HVAC REPAIRS	0.00	0.00	0.00	0.00	0.00
PLUMBING REPAIRS	0.00	0.00	0.00	0.00	0.00
FIRE EXTINGUISHER	0.00	0.00	0.00	0.00	0.00
EXTERMINATION	0.00	0.00	0.00	0.00	0.00
LEGAL FEES	0.00	0.00	0.00	0.00	17,417.10
ACCOUNTING FEES	0.00	0.00	0.00	0.00	3,659.40
PRIOR YEAR DEFICIT	0.00	0.00	87,920.64	0.00	0.00
TOTAL EXPENSES	94,735,041.44	117,625,079.73	136,404,437.09	153,196,216.78	168,326,580.15

Debt Service Payments for the New Jersey Building Authority Leases

Properties: DEPE Building, Roebling Building, DCA Building, DOT Annex, Pest Control Lab, Bank Street Garage, Legislative Staff Building, State House Renovations

AGENCY	Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993		Fiscal Year 1993 (Area in Square Feet)			
	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Office	Storage	Other	Total
Legislature					\$4,437,000.00	\$0.00				
Agriculture					\$331,380.95	\$33,619.05				
Community Affairs					\$1,911,246.38	\$221,753.62				
Environmental Protection & Energy					\$256,399.34	\$3,031,600.66				
Higher Education					\$0.00	\$95,045.57				
Insurance						\$521,375.98				
Transportation					\$2,254,042.72	\$34,957.28				
Departmental (Bank St Garage)					\$936,000.00	\$0.00				
Multiple Departments (Roebling Bldg.)					\$3,441,578.45	\$0.00				
Total	\$17,059,000.00		\$17,499,000.00		\$13,567,647.84	\$3,938,352.16	1,560,258		288016	1,848,274

Sources: New Jersey Building Authority Data; OMB calculations of Non-state Fund Charges, October 1, 1991

Costs Associated with Debt-Service Leases (excluding New Jersey Building Authority)

AGENCY	Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993		Fiscal Year 1993 (Area in Square Feet)			
	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Office	Storage	Other	Total
Commerce			\$1,194,161.79		\$2,520,007.20					na
Law & Public Safety	\$5,469,030.39	\$558,874.16	\$8,831,668.56	\$692,439.65	\$12,890,179.03	\$394,911.65	407,180	0	0	407,180
Public Advocate	\$952,806.82	\$19,001.99	\$952,806.82	\$19,001.99	\$952,806.82	\$19,001.99	74,602			74,602
Treasury	\$2,678,054.81		\$4,543,845.96		\$4,654,949.68		351,532	3,685	0	355,217
Interdepartmental (inc. TOC taxes)	\$207,995.06		\$207,995.06		\$1,847,995.06		15,946			15,946
Judiciary	\$4,264,263.95		\$4,264,263.95		\$4,264,263.95		235,826		113,435	349,261
Total	\$13,572,151.03	\$577,876.15	\$19,994,742.14	\$711,441.64	\$27,130,201.74	\$413,913.64	1,085,086	3,685	113,435	1,202,206

Source: Office of Leasing Operations Rent Projection Computer Report, May 7, 1992

Other Components of Rent Budget (Treasury/OMB Records)

	Expended FY 1991	Appropriated FY 1992	Budget Request FY 1993
Sports and Exposition Authority			\$14,836,769.39
Liberty State Park			\$825,612.50
Total			\$15,662,381.89

Costs Associated with Existing and Projected Regular Leases

AGENCY	Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993		Fiscal Year 1993 (Area in Square Feet)			
	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Office	Storage	Other	Total
	Legislature	\$1,238,813.61	\$168,890.05	\$1,051,503.31	\$201,805.39	\$1,085,324.71	\$203,063.73	72,244	17,500	0
Chief Executive	\$190,723.94	\$0.00	\$198,479.58	\$0.00	\$206,819.24	\$0.00	11,546	0	0	11,546
Agriculture	\$76,479.18	\$6,160.00	\$80,051.05	\$6,591.20	\$83,888.16	\$7,052.58	3,500	6,500	1	10,001
Commerce	\$1,651,609.97	\$0.00	\$1,881,226.21	\$0.00	\$1,634,234.46	\$0.00	66,586	36,685	44,910	148,181
Community Affairs	\$1,135,852.80	\$564,998.65	\$1,108,443.68	\$623,178.04	\$1,149,237.12	\$860,777.25	94,471	0	0	94,471
Corrections	\$3,207,626.60	\$0.00	\$3,492,184.93	\$33,914.28	\$4,884,974.95	\$142,247.50	192,547	42,996	602,241	837,784
Education	\$3,003,345.51	\$375,253.90	\$3,087,948.08	\$449,302.17	\$2,992,705.80	\$623,588.48	216,499	551	0	217,050
Environmental Protection & Energy	\$11,356,851.85	\$927,237.70	\$12,141,948.47	\$988,032.02	\$10,740,451.16	\$2,647,292.95	606,033	53,450	28,722	688,205
Health	\$2,610,994.62	\$441,098.58	\$2,991,092.82	\$441,101.19	\$4,523,634.99	\$496,665.17	240,920	16,698	0	257,618
Higher Education	\$286,841.70	\$703,232.72	\$344,908.19	\$686,334.71	\$365,193.66	\$1,067,498.53	52,483	6,230	0	58,713
Human Services	\$16,247,822.19	\$11,168,575.76	\$18,997,917.01	\$12,316,959.09	\$19,938,761.07	\$12,707,747.52	1,780,143	49,522	79,348	1,909,013
Insurance	\$0.00	\$360,102.98	\$0.00	\$369,117.51	\$0.00	\$477,882.56	15,091	5,812	0	20,903
Labor	\$3,681,542.55	\$12,951,526.03	\$3,881,605.56	\$13,586,022.10	\$4,021,584.77	\$14,864,721.21	1,065,591	46,780	12,264	1,124,635
Law & Public Safety	\$22,451,970.42	\$1,755,031.85	\$24,902,078.79	\$3,397,431.94	\$25,548,462.46	\$3,526,980.06	1,344,998	0	173,446	1,518,444
Military and Veteran's Affairs	\$1,706,916.55	\$92,197.47	\$1,611,617.94	\$108,665.96	\$1,581,316.10	\$166,589.45	96,563	5,760	663,993	766,316
Personnel	\$5,216,877.15	\$0.00	\$5,475,875.91	\$0.00	\$5,766,499.03	\$0.00	254,946	1,535	0	256,481
Public Advocate	\$6,389,914.08	\$0.00	\$7,569,690.80	\$0.00	\$8,264,130.75	\$0.00	383,343	27,765	0	411,108
State	\$3,027,377.97	\$0.00	\$3,079,266.06	\$0.00	\$3,138,208.60	\$0.00	148,823	30,004	0	178,827
Transportation	\$1,737,399.95	\$0.00	\$1,902,881.92	\$0.00	\$1,941,748.18	\$190,624.00	192,267	230		192,497
Treasury	\$17,510,378.76	\$3,071,657.01	\$16,336,808.98	\$5,160,311.62	\$15,355,529.46	\$6,969,096.34	1,069,923	205,347	187,287	1,462,557
Misc. Exec. Commissions	\$110,601.73	\$0.00	\$115,312.43	\$0.00	\$128,015.19	\$0.00	5,783	0	0	5,783
Interdepartmental	\$12,717,214.03	\$0.00	\$17,959,513.05	\$0.00	\$14,423,834.54	\$0.00	182,737	33,096	503,200	719,033
Administrative	\$3,043,429.25	\$0.00	\$3,360,356.26	\$0.00	\$3,547,239.44	\$0.00	159,586	36,300	0	195,886
Total	\$118,600,584.41	\$32,585,962.70	\$131,570,711.03	\$38,368,767.22	\$131,321,793.84	\$44,951,827.33	8,256,623	622,761	2,295,412	11,174,796

Source: Office of Leasing Operations Rent Projection Computer Report, May 7, 1992

Appendix F - Justice Complex Tenants

Agency	Account Number	Area in square feet Office Other		Fiscal Year 1991		Fiscal Year 1992		Fiscal Year 1993	
				Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds	Central Budget General Funds	Agency Budget Non-state Funds
Law & Public Safety	1000 100 990000	88,800		\$1,157,356.88		\$1,157,356.88		\$1,157,356.88	
Law & Public Safety	1010 100 120000	148,768		\$1,938,298.18		\$1,938,298.18		\$1,938,298.18	
Law & Public Safety	1010 414 120000	30,348			\$394,911.65		\$394,911.65		\$394,911.65
Law & Public Safety	1020 100 090000	139,264		\$1,814,501.17		\$1,814,501.17		\$1,814,501.17	
Treasury	2000 100 990000	7,882		\$102,887.29		\$102,887.29		\$102,887.29	
Public Advocate	8310 100 010000	10,732		\$139,899.70		\$139,899.70		\$139,899.70	
Public Advocate	8320 100 020000	6,243		\$81,770.14		\$81,770.14		\$81,770.14	
Public Advocate	8330 100 030000	20,558		\$267,625.29		\$267,625.29		\$267,625.29	
Public Advocate	8350 100 080000	1,372		\$17,268.27		\$17,268.27		\$17,268.27	
Public Advocate	8350 215 080010	670			\$8,436.46		\$8,436.46		\$8,436.46
Public Advocate	8350 220 080030	839			\$10,565.53		\$10,565.53		\$10,565.53
Public Advocate	8410 100 040000	7,985		\$104,143.94		\$104,143.94		\$104,143.94	
Public Advocate	8430 100 060000	6,349		\$83,063.40		\$83,063.40		\$83,063.40	
Public Advocate	8470 100 990000	19,854		\$259,036.08		\$259,036.08		\$259,036.08	
Interdepartmental	9400 100 010000	15,946		\$207,995.06		\$207,995.06		\$207,995.06	
Judiciary	9710 100 010000	20,156	27,678	\$552,763.37		\$552,763.37		\$552,763.37	
Judiciary	9720 100 030000	114,773	52,294	\$2,044,886.58		\$2,044,886.58		\$2,044,886.58	
Judiciary	9765 100 120000	100,897	33,463	\$1,666,614.00		\$1,666,614.00		\$1,666,614.00	
Total		741,436	113,435	\$10,438,109.35	\$413,913.64	\$10,438,109.35	\$413,913.64	\$10,438,109.35	\$413,913.64

Source: Office of Leasing Operations Rent Projection Report, May 7, 1992

GLOSSARY OF ACRONYMS

ADA	Americans With Disabilities Act
BSP/SA	Business System Plan / Strategic Alignment
BOCA	Building Officials and Code Administration International, Inc.
CAD	Computer Aided Design
CCRC	Capital City Redevelopment Corporation
DAG	Deputy Attorney General
DBC	Division of Building and Construction
DCA	Department of Community Affairs
DEC	Digital Equipment Corporation
DEPE	Department of Environmental Protection and Energy
DGE	Division of Gaming Enforcement
DOT	Department of Transportation
DP & OA	Data Processing and Office Automation
EDA	Economic Development Authority
GMRC	Governor's Management Review Commission
GSA	General Services Administration
IQA	Information Quality Analysis
LMIS	Lease Management Information System
MACS	Management Acquisition Control System
MCIA	Mercer County Improvement Authority
NJBA	New Jersey Building Authority
NJFAS	New Jersey Fixed Asset System
NJCFS	New Jersey Comprehensive Financial System
NJFIS	New Jersey Financial Information System
NPL	Notice of Proposed Lease
OAG	Office of Attorney General
OLO	Office of Leasing Operations
OLS	Office of Legislative Services
OMB	Office of Management and Budget

OTIS Office of Telecommunications and Information
Systems
PM Project Manager
PMIS Personnel Management Information System
QRB Quality Review Board
RFP Request for Proposal
SPR Space Planning Request
TOC Trenton Office Complex
TSR Tenant Service Request

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