2013

Lease Renegotiation Status Report

Craig Nichols, Agency Secretary
LEASE RENEGOTIATION STATUS REPORT

EXECUTIVE SUMMARY

Chapter 2013-41, Laws of Florida, provides directives to the Department of Management Services (DMS) with the cooperation of agencies having existing lease contracts for private office or storage space in excess of 2,000 square feet, to renegotiate or reprocure all private lease agreements for office or storage space expiring between July 1, 2014, and June 30, 2016, in order to achieve cost savings in future years. The department incorporated this initiative into its 2013 Master Leasing Report. Tenant broker services may be used to explore the possibilities of collocating office or storage space or to review the space needs of each agency and the length and terms of potential renewals or renegotiations.

The department must report all lease contracts for private office or storage space, the status of renegotiations and the savings achieved to the Executive Office of the Governor, the President of the Senate and the Speaker of the House of Representatives by Nov. 1, 2013. That report is incorporated herein.

Renegotiations between July 1, 2011, and Oct. 15, 2013, have resulted in a reduction in lease costs of $48,727,192 and a net reduction of 919,420 square feet. Exhibits (A) and (B) show a summary of each agency’s total achieved savings for fiscal years 2011-12 and 2012-13 and the period of July 2013 through Oct. 15, 2013. Exhibit (C) shows individual agency lease actions for fiscal years 2011-12 and 2012-13 and the period of July 1, 2013, through Oct. 15, 2013. The department will continue to work with state agencies and the state’s tenant brokers to identify, review and renegotiate existing lease contracts to meet the criteria of the law.

REPORT

State of Florida Leasing Overview

The department’s Division of Real Estate Development and Management (REDM) administers the operations and maintenance of the Florida Facilities Pool (Pool) and the public and private leasing for the state of Florida.

The state’s leasing portfolio includes space in state-owned Pool facilities, private-sector buildings and space leased from other governmental (federal and local) entities. The Pool includes 108 facilities of the 20,387 owned by the State of Florida. As of July 1, 2013, state agencies entered into 291 leases for Pool space and into 820 leases with private landlords or other governmental entities.

The state’s lease procurement process is administered in accordance with sections 255.248, 255.249 and 255.25, Florida Statutes. The leasing process is partially decentralized given that individual agencies are responsible for procuring leased space but, with few exceptions, leases are submitted to DMS for approval.

The department has a fiduciary responsibility to its customers to provide facilities that meet their business and operational needs at optimal-value pricing, based on availability. A key element of
the department’s leasing strategy is to provide taxpayers the best value for their tax dollars, which is best achieved by maintaining high occupancy levels in Pool facilities.

The state has a substantial financial investment in state-owned buildings, so it is in the state’s best interest for its agencies to fully utilize state facilities before leasing private space, when the state-owned buildings meet the agencies’ needs.

The first step of the leasing process is for agencies to inform DMS of their need for space through a Request for Space Need. If state-owned space is available and meets agency operational needs, DMS works to finalize a lease for that space. However, if state-owned space is not available, the agency then begins the process of finding space to fit its needs. The department reviews the business case details to determine if the lease action would be in the best interest of the state and, if so, provides the agency with lease pre-approval. The agency works with the lessor on needed build out and DMS approves the final version of the lease terms and conditions to ensure that all statutory and rule requirements have been met and the landlord and tenant agency have signed the lease contract.

In addition, the state contracts with up to three tenant brokers, selected in a competitive solicitation, to provide agencies with market data research, leasing transaction assistance and construction management services. The state’s tenant brokers, under the state’s partially decentralized leasing system, can provide needed transaction expertise to agencies to seek more favorable lease terms and rates and better monitor and track cost savings.

Data Collection

To compile this report, lease data is captured from the department's Facilities Accountability and Communication Tool (FACT) system and consolidated by the department's leasing staff. The FACT system serves as the central business information technology system for the REDM division for leasing, Fixed Capital Outlay, building construction project management and maintenance and operations. The data in this report includes all existing lease contracts and leases for nominal costs.

The department’s leasing staff reviews each lease file to determine the nature and extent of any square footage or rental rate reductions, and any aggregate savings, by comparing the annual payments prior to any reductions to those after reductions. On a monthly basis, DMS sends all agencies a comprehensive report with detailed instructions that highlight individual agency lease cost savings and provide the methodology used for capturing the data. Agencies review and validate this information and provide comments as necessary. While renegotiations and lease agreements are fluid, and terms, rental rates and time lines change throughout the negotiation process, calculations are modified on an ongoing basis to ensure long-range accuracy of the monthly reports. Due to this fluidity, the numbers contained in the monthly reports are only accurate on the day the report is generated.

Leasing Actions
The following section provides definitions of leasing actions captured in this report and in associated exhibits.

**Lease expiration** is when an agency allows a lease to expire, closes the office at the end of the lease term, and does not replace the lease.

**Lease modification** is a lease renegotiation to achieve either a square footage rate change or a square footage space change.

**Lease renewal** is a lease renegotiation conducted to add additional terms, either in months or years, to a lease that might also result in a square footage and/or rate change.

**New lease procurements** arise when a lease ends, either upon termination or at the end of the contracted lease term, and an agency enters into a new lease. At this point, agencies are encouraged to reduce the overall square footage of the lease; however, some agencies may merge two offices into a single lease, increasing the new square footage. Savings are realized when a lease expires and is not replaced or when an agency achieves a reduction in the rate for newly procured lease space.

**Lease cancellations** arise when the Legislature does not appropriate funds to pay a lease, thereby affecting a lease cancellation prior to the actual lease expiration. In this situation, no new lease takes the place of the cancelled lease.

**DMS Outreach Efforts**

In addition to monitoring and tracking progress on lease renegotiations, DMS has historically worked with agencies to educate and assist them with the directives and required renegotiations. The department provides all agencies with a comprehensive report that highlights individual agency savings and the methodology used for capturing data and savings calculations. Agencies review and validate this information and provide comments throughout the year as necessary.

The Division of Real Estate Development and Management is developing a 24-month outlook-tracking tool to monitor upcoming leases that have renewal options or require new procurements. The tracking tool’s objective is to notify agency contacts at specific timeframes to ensure that proper steps are taken to address the lease transaction in a timely and efficient manner. Additionally, the tool will identify opportunities for collocation, space reduction and other portfolio efficiencies. The division plans to roll out the new tracking tool in December 2013.

The Department of Management Services has used quarterly leasing liaison meetings to highlight the directives’ objectives, results and pending actions. The department has provided information on these directives to the Florida Association of State Agency Administrative Services directors as well as the Governor’s Office of Policy and Budget. The department leasing agents work with their assigned agency leasing liaisons to update the status of all unworked leases.
CONCLUSION

The Department of Management Services will continue working with partner agencies and the state’s tenant brokers to renegotiate or reprocure all private leases that meet the criteria set forth in Chapter 2013-41, Laws of Florida, to achieve the maximum possible cost savings for the state in future years. Renegotiations between July 1, 2011, and Oct. 15, 2013, have resulted in a reduction in lease costs of $48,727,192 and a net reduction of 919,420 square feet.

Should you have any questions about this plan or need additional information, please contact:

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