

GO #4
March 14, 2011

MEMORANDUM

March 10, 2011

TO: Government Operations and Fiscal Policy Committee
CAH
FROM: Charles H. Sherer, Legislative Analyst
SUBJECT: Organizational Reform Commission's recommendation regarding real estate and facilities management

The following agency representatives will attend, barring unforeseen events:

County Government: Cyndi Brenneman
MCPS: Janice Turpin
Montgomery College: David Capp
M-NCPPC: John Schlee
HOC: Steve Lukaczer

Background In its report to the Council dated January 31, 2011, the ORC made one recommendation regarding real estate and facilities management:

#14 Real Estate and Facilities Centralize County real estate and facilities functions that are now handled separately by each of the County agencies.

The full text of the recommendation is below.

#14 Real Estate and Facilities Management

Statement of the Issue The County is experiencing inefficiencies in real estate and facilities management, often because of competing agency priorities. At this time, the tools to properly manage these assets do not seem sufficient.

Discussion of the Issue and Recommendations The ORC interviewed department directors and staff from County government and MCPS to discuss how their real estate, office space and facilities operations – including the Community Use of Public Facilities (CUPF) office – are managed. We also reviewed a significant amount of background information from CARS, to provide further context. We focused on the potential for managing these assets in a centralized manner, while continuing to meet the programmatic needs of the different organizations.

Currently, a combination of organization culture/structure and a lack of tools and systems is problematic. We were advised that the County government’s facility and property resources are managed primarily through the institutional memory and informal tracking tools (paper records, spreadsheets, etc.) of one or two employees. Also, according to CARS research, “...not all the agencies have a central real estate function for their entire organization. In those organizations real estate transactions/planning take place in multiple departments/divisions...”

The CARS recommendation on this issue is to hold quarterly meetings to coordinate and identify potential opportunities to collaborate across multiple agencies. We believe that this approach is insufficient to effectively drive sustainable savings. Given the potential for competing priorities, we believe this is more likely to lead to decisions that are not in the County’s best interest. It should be noted that there is work ongoing that would create a single Request for Proposal process for real estate services. This would benefit multiple agencies and we believe it is a useful improvement that should be advanced.

Another player in managing the use of the County’s various real estate assets is CUPF. Any recommendation should include CUPF, in order to extend the same functionality and reduce the level of effort currently needed to perform its tasks.

➤ ***We recommend that the County consolidate its real estate and facilities functions so that these assets can be managed in a centralized manner.***

We believe that the County’s new Enterprise Resource Planning System should be developed with a central structure in mind and with workflow capability that can accommodate the needs of CUPF. All County agency property, facilities, and office space should be managed through a central database, under a well-defined set of business rules. All space and property assets should be considered for central management. Management should be to a level of granularity (office, conference room or cubicle) that move management (management of office space) is also streamlined. We believe this change should be phased in and at this time we have not determined the best form of governance for this operation. We support eliminating silos, but we caution against an excessive role for any one programmatic need.

In sum, the ORC recommends consolidating the real estate and facilities functions of all agencies into the County Government’s Department of General Services (“managing these assets in a centralized manner”). This consolidation includes moving the Community Use of Public Facilities (CUPF) office into DGS, but this is a separate issue (#5) which will be the subject of a reorganization bill. Introduction of the bill to implement recommendation #5 was on March 8, the public hearing will be on March 29, and the ED Committee will consider the bill in April.

Executive's response In a memorandum to the Council President dated February 21, 2011, the Executive provided his response to each of the 28 recommendations in the ORC report. The Executive **supports** recommendation #14 to consolidate the real estate and facilities functions of all agencies into the County Government's Department of General Services. (In a related response to ORC recommendation #5, he **opposes** moving the Community Use of Public Facilities (CUPF) office into DGS.)

The real estate function involves site evaluation, site acquisition/disposition, leasing space from private owners (an expense lease), and leasing County owned space to private tenants (a revenue lease).

The Executive makes the following points (see the last page of this memorandum for the Executive's entire recommendation.)

1. Having five agencies managing real estate is inefficient. Consolidation would improve the ability to identify opportunities to share leased or owned space, to minimize unneeded leased space/maximize space use, and to get lower cost leases. "Greater efficiencies and, more likely, measurable savings can be achieved through a consolidation of the leasing and property management function."
2. The agencies would have to resolve the following challenges:
 - a. Authority. The real estate officers in the four agencies other than County Government get their authority regarding property from State statutes that would have to be amended.
 - b. Space management. Each agency has a different inventory system for its leased and owned properties. The agencies would have to somehow merge their data into a single database, which would take 12-18 months.
 - c. Funding and budgeting. Two agencies have separate funds for their real estate functions.
 - d. Staff and workload issues. The County Government has a Real Estate program with 7 positions. The other agencies do not have even one position working exclusively on real estate matters. **(The College made this point below. The implication is that no agency would be able to reduce the number of staff, but County Government would almost certainly need additional staff to handle the additional workload from taking over these functions for other agencies.)**

College's response We do not have any staff whose sole responsibility is lease management. We are able to handle the oversight responsibilities with current staff as a part of their other duties. Transferring lease management to another agency would not result in any savings—no positions could be eliminated.

The College is not in agreement with the need to consolidate space management and leasing across the agencies. It would just provide another layer of bureaucracy and not be efficient or effective. The comment that "changes in State statutes" would be necessary to bring about a consolidation seems to be a significant legal hurdle that could take years.

The comment in the CE's recommendation that "inefficiencies exist across the County" does not apply to Montgomery College. As you know, we have a detailed space inventory and space management system. Most institutions of higher education have such systems in place. We submit annual space reports to the State of Maryland (MHEC, DGS & DBM) and we have an excellent archival system for all of our building plans and specifications.

Lastly, as an institution of higher education, we have a sophisticated computerized system for space scheduling. I have shared sample inventory and utilization reports and a space classification manual link with our CARS subcommittee. It would seem that if the County has need of such systems for its own space, there are models at Montgomery College and possibly MCPS that can be shared.

HOC response HOC leases two Customer Service Centers in Silver Spring and in Gaithersburg, and we lease our headquarters office facilities primarily in the old Kensington Elementary School, with some space also under lease in a commercial office building across the street. Management of these leases is a very small proportion of what the Facilities Department's responsibilities include, so no staff reductions would result from outsourcing this function. It is possible that economies of scale might provide some savings on lease rates; however, our space requirements for most of our office space is quite specific as far as location and space design, and some of our leases are long term leases, so potential savings might be difficult to realize.

MCPS In a memorandum dated February 23, 2011, the Superintendent included the following summary of this ORC recommendation:

"Centralize real estate and facilities functions (Page 26). The report advocates combining real estate, office space, and facilities operations across all County agencies to avoid "inefficiencies in real estate and facilities management." ORC specifically concluded that the interagency cooperation proposed in December 2010 by the Cross-Agency Resource Sharing (CARS) Committee does not go far enough. The commission advocated phasing in this change. The report does not include any estimate of savings resulting from these changes."

Council staff analysis and recommendation Given the agencies' opposition and the need to amend State law, this consolidation cannot occur any time soon. The fact noted above is a concern about consolidation: The County Government has a Real Estate program with 7 positions, but the other agencies do not have even one position working exclusively on real estate matters. Therefore, no agency would be able to reduce the number of staff, but County Government would almost certainly need additional staff to handle the additional workload from taking over these functions for other agencies. The staff in the other agencies who currently work on real estate matters would have a slight decrease in their workload, but this would perhaps be partly offset by the need to coordinate with the new consolidated entity.

More analysis is needed to determine whether the benefits of consolidation can reasonably be expected to exceed the costs. To find out, Council staff suggests the following.

1. Council staff recommends that the Council ask the Space Use Subgroup of the Cross Agency Resource Sharing Committee to review the ORC recommendation over the summer.
2. If the Council agrees, the Council should ask that the Subgroup **not** just develop a list of reasons why the functions should not be consolidated. Rather, the Council should ask the CARS subgroup to develop a plan to overcome any reasons or problems identified and to make the consolidation work.
3. To permit an informed decision whether to proceed with consolidation, the plan should include:
 - a. an estimate of the costs of a consolidated structure and the costs of the current separate structures; and
 - b. an estimate of the benefits of a consolidated structure and the benefits of the current separate structures.
4. The plan should include an analysis of how State law would have to be changed and an agreement on how to create a single database.

The Council should ask the Subgroup to report to the Council by December 1, 2011. After review in early 2012, if the Council approves the consolidation, then the County could request the State to change the law as necessary in the January – April, 2013 session, with the consolidation to take effect starting on July 1, 2013 (FY14).

Final thought: There is no proposal to consolidate repair and maintenance of facilities, but this would be a logical next step to consider if the space management and leasing were consolidated.

County Executive's recommendations regarding the final report of the Organizational Reform Commission (ORC) which was released on January 31, 2011.

14. Centralize County real estate and facilities functions now handled separately by County agencies.

County Executive's Position: **Support**

The ORC report correctly observed that inefficiencies exist across agencies in the sharing and coordination of real estate and property management. This is primarily due to a lack of communication and shared data between County agencies. There may be some element of competition among agencies for the same available properties, as ORC also states, but I do not believe this is a common occurrence. The ORC report also correctly observed that the CARS strategy to improve communication through quarterly meetings falls short of the goal to aggressively identify shared leasing opportunities, create standards and maximize space utilization to obtain lower cost leases and/or reduce the amount of leased space, and explore opportunities to share owned and leased space among agencies, thereby lowering costs.

It is assumed that what ORC terms "facilities management" is intended to address "property management," meaning the efficient use and occupancy of owned space to maximize its use, thereby reducing the need for additional space, or allowing for the shared use of space among agencies resulting in greater efficiencies, lowered costs, or cost avoidance.

Greater efficiencies and, more than likely, measurable savings can be achieved through a consolidation of the leasing and property management function. There are also challenges to achieving this, as outlined below. However, these challenges can be met through: (1) a web-accessible common shared database, and (2) Memorandums of Understanding (MOUs) or Service Level Agreements (SLAs) between agencies addressing governance and consolidated function:

- **Authority** - With the exception of the County Government, the agency real estate officers receive their authority directly from State statutes that would have to be amended with regard to how real property is acquired, managed and disposed of.
- **Leasing Function** - In all agencies but the County Government's Office of Real Estate, leasing and property management is only a part of a larger portfolio of diverse duties.
- **Space Management** - Each agency has a different inventory system for its leased and owned properties. Building a mutual database will require 12-18 months to create and organize.
- **Funding/Budgeting** - At least two of the participating agencies' real estate offices operate as self sustaining functions similar to enterprise funds.