CHAPTER 6 – STATEWIDE CAPITAL ASSET MANAGEMENT

"Colorado must effectively manage its capital assets on a statewide basis. By using technology to enhance management practices, Colorado can generate substantial internal efficiencies from asset management." Mike Trevithick, NCC Project Co-Director

The NCC Asset Management team identified two primary areas where statewide business and technology changes could produce more efficient services. The State could benefit from an enterprise focus: managing real estate assets on a statewide basis instead of relying on each state department to independently manage these assets. In addition, changes in state fleet management practices are necessary to ensure that efficiency savings identified in an earlier NCC report are fully realized. This chapter is divided into two sections: Real Estate Assets and Fleet Management. The recommendations for each section are summarized in the table below.

Figure 6-1: Statewide Capital Asset Management Recommendations

Recommendation	Estimated Cost Savings / Cost Avoidance	Support for NCC Goals	Status
6.1. The State should establish a Real Estate Asset Management Center in partnership with one or more buyer-brokers.	N / A	✓Efficiency and Effectiveness ✓Collaboration and Information Sharing	Ready to Implement
6.2. The State should review new lease opportunities and perform a comprehensive evaluation of each buy / build / lease decision.	$2.1 million cost avoidance	✓Efficiency and Effectiveness	Ready to Implement
6.3. The State should look for opportunities to co-locate agencies and to facilitate telecommuting for more cost-effective space utilization.	$2.6 million cost avoidance	✓Efficiency and Effectiveness ✓Collaboration and Information Sharing	In Progress
6.4. The State should continue to address fleet management improvements by reducing the size of the fleet, improving the utilization of vehicles, improving customer service, pursuing fuel savings, and upgrading technology.	$4.5 million annual cost avoidance (previously taken)	✓Efficiency and Effectiveness ✓Collaboration and Information Sharing	Ready to Implement

REAL ESTATE ASSETS

This section addresses issues related to the State's management of real estate assets: the need for a central management agency, review of leasing options, and consideration of co-location and telecommuting.

Opportunity Statement

The problem that immediately confronted the NCC Asset Management team is that a comprehensive asset management function, and related database, does not yet exist for Colorado State Government. When the total dollars devoted to the real assets utilized by the State are examined, it is immediately apparent that reorganizing existing real estate assets and asset management practices could create substantial efficiencies.

Background

The team's research determined that the total estimated value of the State's real property assets is approximately $8.0 billion. This figure includes related trust accounts ($569.0 million), acreage (approximately 4.0 million acres), and more than 5,000 buildings (including 4,383 state-owned buildings). The Office of Risk

Management (ORM) in Department of Personnel / General Support Services (GSS) estimates the value of state-owned buildings at approximately $112 per square foot. Most of the State's assets were counted in developing this total, but not all are valued at current market prices. For example, land and / or buildings acquired decades ago are still carried at their original acquisition cost.

Annual lease costs are approximately $30.0 million for all leases, including Higher Education. As these leases expire, estimates show there will be increasing costs to renew, particularly in the downtown Denver area. There are 187 leases expiring statewide by June 30, 2001 that were previously negotiated at lower rates than can be anticipated in the current market.

The data gathered also revealed a wide range in the number of allocated square feet per full time equivalent (FTE) in state-occupied space. The number of square feet per FTE in the City of Lakewood and the counties of El Paso, Mesa, and Weld ranges from 44 to 504 based on space designated as office space in the ORM and number of FTE reported by each department. It is unlikely that this data accurately represents the true range of square feet per FTE. However, it is known that space utilization is not consistent across departments.

Many of the State's critical facilities management functions are performed by agencies in the Department of Personnel / GSS. These agencies include the ORM and the State Buildings Real Estate Program. These organizations provide services to all state departments for insurance, locating leased space, and building and maintaining state-owned property. Corporate Planners & Coordinators, Inc. is the single broker currently used in the Denver metropolitan area for securing leased space. Only one other broker, Cheyenne Mountain Broker in Colorado Springs, is contracted with the State. These brokers represent the tenant but receive a commission from the landlords of the leased space. This relationship could be a potential conflict of interest that works against the financial interest of the State.

Key Findings

The NCC Asset Management team started this project by reviewing all aspects of real asset management. The research led to the identification of several primary issues.

- Metropolitan Denver office space is limited and lease prices are increasing at a rate of five to 10 percent per year.
- There is no statewide master plan for the acquisition and / or utilization of space.
- There is not a single, statewide database with complete information to allow a comparison of ownership costs to lease costs. In addition, there is no consistent decision-making method for comparing costs of lease / buy / build options.
- State agencies infrequently consider co-location possibilities to reduce the costs of ownership or leasing.
- The acquisition process is time-consuming and cumbersome.
- There are no consistent, statewide office space standards.

Assessment

The team developed a number of alternative management solutions. The primary business solution consisted of four organization models that are presented in Figure 6-2: The Asset Management Functional Matrix. This matrix identifies various functions that would be performed under each of the models:

- The Resource Center and Management Center Models would centralize functions in Department of Personnel / GSS with assistance from one or more tenant-brokers.
- The Authority Model would be a quasi-governmental organization with a governing board appointed by the Governor that would have buying and selling authority.
- The Privatized Model would include selling most of the State's property assets and leasing from the private market.

The team also examined technology options for asset management systems. Although several are presently in use in the Department of Personnel / GSS, they are not interactive and are not accessible to other agencies. In addition, two different systems have recently been introduced in several state agencies. A complete review of potential technology alternatives should be one of the first tasks for a new Real Estate Asset Resource Center.

Figure 6-2: Asset Management Functional Matrix

Function	As-Is Situation	Model 1 Resource Center	Model 2 Management Center	Model 3 Real Property Authority	Model 4 Privatized Model (State Role)
Director's Office	X	X	X	X	X
Strategic Planning and Policy Development	Part	X	X	X	Part
Standards Development	Part	X	X	X	X
Tenant Services	X	X	X	X	
Property Acquisition	Approval Only	Approval Only	X	X	Approval Only
Property Valuation and Loss Control	X	X	X	X	X
Construction Management	Agency Contracts	Agency Contracts	X	X	
Energy Management	X	X	X	X	
Environmental Services			X	X	
Customer Relations		X	X	X	X
Training Programs			X	X	
Administration					
✓ Purchasing	Leases Only	Leases Only	X	X	Leases Only
✓ Personnel				X	
✓ Accounting				X	
✓ Financing				X	
✓ Reporting	X	X	X	X	X
✓ Partnership		X	X	X	X
✓ Development					
Property Plan Approvals	X	X	X	X	X
Property Plan Reviews		X	X	X	X
Technical Support to Agencies	Limited	Limited	X	X	X

Recommended Solutions

Recommendation 6.1: The State of Colorado should establish a Real Estate Asset Management Center in partnership with one or more buyer-brokers.

The NCC Asset Management team's primary solution is the creation of a Real Estate Asset Management Center and expansion of the real estate management services presently offered by the State. This recommendation also envisions implementing a statewide asset management information system. All agencies and Higher Education should use the services provided by the Real Estate Asset Management Center. A multi-agency implementation team, working with the Department of Personnel / GSS, should be responsible for implementing this concept.

A Real Estate Asset Management Center should be created as a preliminary step towards implementation of a more comprehensive Management Center. This approach would allow improvements to start immediately.

One way to add the functions of the Management Center would be to restructure the State's relationship with one or more real estate brokers. Since the brokers already charge a fee to leased space providers, expanded services could conceivably be funded through establishment of a buyer-broker relationship with the State. Instead of paying the brokers indirectly, through higher leasing fees, the State could pay the brokers directly. The verifiable dollar benefits of the functions performed by the broker(s) would need to exceed the total added costs attributable to the new fee structure in order to justify this approach.

The Real Estate Asset Management Center would initially be comprised of positions and functions currently located in Department of Personnel / GSS and other state agencies. The Resource Center would become the central approval authority for all lease / buy / build decisions for general purpose real estate assets, including higher education assets. The only exceptions should be the building of specialized facilities such as prisons, youth facilities, hospitals, and some educational facilities.

The Real Estate Asset Management Center should immediately begin to focus on reducing lease costs on those leases that expire before July 2001. The Center should also develop a statewide strategic plan for real estate asset management. In addition, the Center would set office space standards, propose ways to improve the acquisition process, and consider other property management alternatives (such as lease or buy decisions, build-to-suit options, partnering among state agencies, educational institutions, and quasi-state agencies such as Public Employees Retirement Association).

Recommendation 6.2: The State of Colorado should review new lease opportunities and perform a comprehensive evaluation of each buy / build / lease decision.

A statewide database identifying all the various facilities owned and leased by state agencies and universities is a key tool for successful statewide real asset management. The database should include information such as occupancy use, facility condition index, and the lease and / or ownership costs associated with each property. A complete review of potential technology alternatives should be one of the first tasks for a new Real Estate Asset Management Center.

One outgrowth of a statewide real estate management system should be the use of a decision tool kit that would assist the Real Estate Asset Management Center and state agencies in determining the best options for acquiring space. A net present value tool developed by the State of Washington (obtained by the NCC team at no cost), models various real estate decision scenarios. This tool, or an equivalent, should be acquired and used by the State for internal analysis. This tool kit is needed immediately for making decisions on leases that expire during the next year.

Recommendation 6.3: The State of Colorado should look for opportunities to co-locate agencies and to facilitate telecommuting for more cost-effective space utilization.

Examination of opportunities for co-locating state offices and increasing telecommuting options can begin immediately. As leases approach expiration, departments need to look for opportunities for physical co-location–a central office for real estate management will facilitate this process. Other co-location and telecommuting options include teleworking (work from home via a personal computer), hoteling (sharing office space by those employees who do not need an office everyday), and virtual officing (which includes non-traditional office settings).

In order to support co-location and gain efficiencies, mandatory office space standards should be implemented across the State for both leased and owned space. The current guidelines developed by the Division of Real Estate Services serve as an excellent starting point.

Justification

The primary benefits that result from improved management of real estate assets are cost savings / cost avoidance and improved collaboration among state agencies. The potential benefits and their relationship to the Governor's NCC goals are described below.

Efficiency and Effectiveness

NCC estimates that improved management of real estate assets can generate at least $2.1 million in annual cost avoidance through lease rate reductions. This analysis is for illustrative purposes and the details would need to be validated prior to implementation with input from affected agencies.

The Asset Management team identified several leased buildings in downtown Denver as potential candidates for relocation to less expensive leased space in the suburbs of Denver. Many state agencies are housed in these buildings. There are undoubtedly sound reasons for some of them to be in the downtown Denver area, in many cases for the convenience of their clients and other government agencies. There are other agencies, however, that are likely to be good candidates for relocation to other areas. For purposes of this analysis, NCC assumed that approximately 425,000 square feet of office space now leased in downtown Denver could be located elsewhere.

In the fourth quarter of 1999, the corporate advisory firm of CB Richard Ellis, Inc. reported the average cost of leased office space in *Downtown Denver* was $20.06 per square foot. The average cost of office space in the areas east of downtown Denver, identified as *East / Aurora*, was $15.95 per square foot, or $4.11 per square foot less annually than downtown Denver. Likewise, the area around Ft. Logan, identified as the *Southwest* part of the Denver metro area, showed an average lease cost of $14.12 per square foot, or $5.94 per square foot less than in downtown Denver. Both East Denver and Ft. Logan are good candidates for the relocation of the state agencies. Both have good access to Regional Transportation District transportation and the potential for adequate and inexpensive parking for staff and visitors alike.

The annual $2.1 million lease cost avoidance for the State of Colorado is equal to 425,000 square feet times the average annual lease rate difference [($4.11 + $5.94) / 2]. Such cost avoidance could be realized if the state leases suburban office space comparable to that now leased in downtown Denver or if the State were to leverage the availability of such space as an incentive to negotiate lower rates in downtown Denver.

First year cost avoidance could be offset to some extent by relocation costs. In subsequent years, lower lease rates would not be offset. Preliminary estimates derived from the Washington model confirm the estimates developed above.

Implementing the NCC recommendations will not increase personnel costs in the first year since, in addition to the FTE currently employed by the Department of Personnel / GSS, there are several FTE performing similar functions in other state departments. The Implementation team will determine the exact staffing plan for the Real Estate Asset Management Center. Some one-time costs related to centralization of functions are likely, but would be minimal. The primary cost driver for the recommended solutions are related to an asset management information system. No firm estimate of this cost is currently available.

The NCC Asset Management team believes long-term cost savings from reduced lease costs should exceed the short-term cost for the information system and one-time operating expenses. In addition, studies by space management consultants and initial estimates by NCC suggest that up to $2.6 million annually in additional cost avoidance / savings could be achieved by co-locating office space and considering alternatives such as telecommuting and hoteling. The NCC Asset Management team believes that all costs and anticipated savings should be fully documented as implementation of these recommendations proceeds.

Access to State Government

Currently, Colorado citizens must go to several different locations in order to take care of state-related business. Although citizens may receive more efficient and accessible services if office space is relocated and / or co-located, the primary benefits of this project are not related to citizen services.

Collaboration and Information Sharing

Most of the project benefits related to collaboration ultimately drive efficiency and effectiveness improvements. However, several additional qualitative benefits can be realized from improved management of real estate assets:

- The availability of one consistent source of information on real estate assets can benefit all agencies when they need new or expanded space.
- Agencies that choose to co-locate could provide a more unified and consistent interface to their clients / customers.
- Agencies that choose to co-locate can more readily share information.
- Consistent use of buy / build / lease decision tools and space standards will reduce inequities in state office accommodations.

FLEET MANAGEMENT

This section addresses issues related to the management of the State's vehicle fleet, including light-duty and heavy-duty vehicles. Among the issues addressed are savings from a January 2000 NCC report and additional re-engineering recommendations for improving vehicle utilization, improving customer service, reducing the cost of fuel, and upgrading fleet management technology.

Opportunity Statement

The January NCC study examined the opportunity for cost reductions resulting from more efficient use and disposal of the State of Colorado's fleet, managed by the State Fleet Management (SFM) Program. SFM managed 5,644 vehicles during Fiscal Year (FY) 1998-99.

Based upon the recommendations contained in that study, the Department of Personnel / GSS State Fleet Management program, the Governor's Office and the Joint Budget Committee agreed to a package of fleet-related budget adjustments, including the following items:

- Withdrawal of a $333,000 decision item for replacement of 400 vehicles in FY 2000-01 (annual cost avoidance totals $1.0 million);
- Replacement of 293 vehicles utilizing existing funding available to SFM (annual cost avoidance to be determined);
- Elimination of at least 362 vehicles from the State fleet during FY 2000-01 (annual cost avoidance to be determined); and
- Reduction of $1.3 million in FY 2000-01 vehicle replacement appropriations to account for a reduction in the SFM management fee from $30 to $17.

In addition to this package of reductions, the NCC project identified additional reengineering opportunities that will help ensure that the State achieves the $4.5 million savings / cost avoidance identified in the January report. These additional opportunities are noted below.

Figure 6.3 – Fleet Efficiencies

Opportunity	Savings / Cost Avoidance
Reduce Commute Vehicles	$150,000
Fuel Discounts	$136,000
Diesel Fuel Tax Exemption	$245,000
No Replacement of Gas Tanks	$ 60,000
Total Potential Savings / Cost Avoidance	$591,000

Background

The State Fleet Management program was established through legislation and rules to be a centralized organization to oversee management of the State's light-duty vehicles (3 / 4 ton or less). This fleet consists of 5,644 (Fiscal Year 1998-99) sedans, pickups, vans, and sport utility vehicles. The total cost to operate vehicles managed by SFM is $23.0 million.

Key Findings

The NCC Asset Management team investigated all aspects of the present fleet management program. The team found that the program is generally well-managed. There were several areas that could use further improvement. These are listed below:

- SFM, the Agency fleet managers, Agency Budget Directors, the Office of State Planning and Budget (OSPB) and the Joint Budget Committee (JBC) do not have agreement on a clear, consistent, and understandable process for planning and managing vehicle replacements and estimating the fiscal impact of such decisions.
- The SFM program makes decisions on repair vs. replacement of vehicles based, in part, on an assumed economic life of the vehicle as opposed to the vehicle's useful life. This practice may increase the total cost of leasing, operating, and maintaining the fleet.
- SFM needs to improve it's working relationship with agencies by getting input and buy-in on decisions that impact the agencies and by actively involving them in problem solving.
- Meetings with the Motor Vehicle Advisory Council (MVAC) have become information sharing meetings rather than MVAC serving a program administration role as originally designed.
- Replacement of vehicles that are in accidents or down for major repairs is not always done on a timely basis.
- The State is not receiving fuel discounts that are received by other states. It cannot receive a 24-cent per gallon diesel fuel tax exemption unless the fuel is purchased at the point of sale.

Assessment

The NCC Asset Management team examined a variety of issues related to management of the State's fleet. The issues generally fell into the following categories:

- Reducing the size of the fleet;
- Improving utilization of fleet vehicles;
- Improving customer service practices;
- Reducing fuel costs; and
- Improving the technology used to support and oversee SFM.

Options in each of these areas are addressed in the recommendations that follow.

Recommended Solutions

Recommendation 6.4: The State of Colorado should continue to address fleet management improvements by reducing the size of the fleet, improving the utilization of vehicles, improving customer service, pursuing fuel savings, and upgrading technology.

All of the recommendations noted here are ready for implementation by Department of Personnel / GSS, the OSPB, and a multi-agency Implementation team. The recommendations are grouped into five categories based on the options noted above.

Recommendation 6.4a: Reducing Vehicles

The State of Colorado should continue implementation of recommendations contained in the January 2000 NCC report on Fleet Management.

These recommendations included allowing SFM to retain vehicle disposal proceeds, reducing the fleet by at least 362 vehicles, establishing motor pools, and providing staggered delivery of state patrol vehicles. As of the writing of this report retention of disposal proceeds is implemented, elimination of vehicles is subject to further review, motor pools are in a pilot phase, and staggered delivery of patrol vehicles is underway.

Recommendation 6.4b: Vehicle Utilization

The State should establish more accurate utilization criteria that meet agencies' needs and provide a realistic value for determining underutilization. In addition, the State should tighten criteria to reduce the number of vehicles used to commute to and from home. More detailed recommendations on specific changes in utilization standards and commuting criteria will be forwarded to SFM for implementation.

Recommendation 6.4c: Customer Service

The state Fleet Management program should improve customer service by:

- Changing vehicle replacement criteria from an economic life basis to a useful life basis and giving agencies input regarding repair and replacement of vehicles;
- Redefining role of MVAC to include more agency input on decisions being made;
- Adding enhancements to the Colorado Automobile Reporting System so that customers can easily access data they need to more efficiently manage their fleet;
- Providing replacement vehicles in a more timely manner and addressing agency needs for seasonal vehicles;
- Thoroughly investigating other alternatives for providing replacement vehicles, such as renting or buying a used vehicle at auction; and
- Providing an annual report to the MVAC, the OSPB, and the JBC, that includes a breakdown and justification for the management fee and variable costs.

Not all gains from improved customer service can be quantified, although changing vehicle repair and replacement criteria from economic life to useful life could result in significant cost avoidance.

Recommendation 6.4d: Fuel Savings

Other states have been successful in negotiating a three percent fuel discount with major fuel vendors. Colorado should also pursue a three percent discount. The State should also equip diesel trucks and other vehicles with vendor credit cards that allow tax to be reported for receipt of the 24-cents per gallon sales tax exemption at the point of sale. In addition, the State should not replace any gasoline tanks once they have reached their useful life.

Recommendation 6.5e: Technology Improvements

The State should implement one fleet software package for use by all agencies and universities. The software should be compatible with all financial systems and should facilitate monthly billing and statements. This recommendation would drive additional one-time costs, which cannot be accurately estimated at this time, but which are not likely to exceed $500,000.

Justification

The primary benefits that result from improved management of fleet vehicles are cost savings / cost avoidance and improved collaboration among state agencies. The potential benefits and their relationship to the Governor's NCC goals are described below.

Efficiency and Effectiveness

In addition to the cost savings / cost avoidance identified in the original NCC recommendations, the additional reengineering opportunities could produce efficiencies totaling $591,000. Tighter commuting criteria by itself can generate savings / cost avoidance totaling approximately $150,000.

In FY 1998-99, the State spent over $5.5 million dollars with five fuel vendors. These vendors are located in all areas of the State. Discounts should be negotiated with them and all employees should be encouraged to purchase fuel through these vendors. Colorado should pursue a three percent fuel discount, which, on $5.8 million of fuel purchases in FY 1998-99, would be $174,000. Even if only the top three vendors agreed, the annual savings would be $136,000.

Establishing credit card accounts with key vendors rather than using the Voyager card would allow the State to earn the sales tax exemption on diesel fuel. An analysis was performed of the key vendors for diesel fuel purchases in FY 1998-99. Ensuring the State gets this tax exemption could save approximately $245,000 annually.

The average cost of bulk gasoline in FY 1998-99 was 83-cents per gallon compared to 73-cents average for purchases from retailers. Eliminating all gasoline tanks will result in savings of approximately $60,000 per year.

Collaboration and Information Sharing

Improved customer service by the SFM program can result in substantial improvements in collaboration among agencies involved in the fleet management process. Improved communication between SFM, agency fleet managers, and budget officers would benefit the State by eliminating inconsistent and duplicative information.

NCC also believes analysis of the technical and business needs for a statewide fleet management software upgrade will identify benefits for SFM, the agency fleet managers, and budget officers; most likely improved accuracy of information, and streamlined work processes.