

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: June 25, 2010
To: Supervisor Lee E. Holloway, County Board Chairman
From: Jerome J. Heer, Director of Audits
Subject: Strategic Property Management

On Monday, June 28, 2010, the Milwaukee County Long Range Strategic Planning Steering Committee will be discussing facility office space issues. The administration is evaluating several options to reduce overall space costs to the County, including the issuance of a request for proposal to address space needs for departments located at, or that may be relocated to, City Campus. It is expected that the administration will concurrently evaluate possible options concerning the space needs for the Office on Aging (Aging) and the related Care Management Organization (CMO). Both currently lease office space at the Henry Reuss Federal Plaza Building, 310 West Wisconsin Avenue under a joint lease that is set to expire at the end of 2010.

Background

In September 1999, the Department of Audit issued a report on Milwaukee County's property management. The audit concluded that a comprehensive inventory of County facilities did not exist. Further, management of space utilization occurred primarily in a decentralized manner, at the departmental level and at times even lower organizational units within the larger departments. As a result, decisions regarding space utilization may have been reached based on limited alternatives, inadequate information, or without consideration given to appropriate policy objectives or sound economic principles. This highlighted the need for a formalized space management process with coordination at a central point within the County.

Since that audit, the County has improved its ability to identify all County building and other property assets. Key to this was the purchase of an asset management system, along with assessing the condition of County facilities to identify immediate and long term building repairs and maintenance. Also, the Department of Administrative Services began requiring County departments to submit a Facility/Space Utilization/Need Plan (FSUNP) as part of the annual budget process, beginning with the 2001 budget. Departments are required to report current staff levels and associated space needs, and project those needs over the next five years.

However, neither of these efforts reached their full potential. Initial assessments of all County facilities, which began in 2001, have not been completed. Further, subsequent assessments of facilities initially assessed have not occurred. Perhaps more importantly, funding has not been sufficient to address both specific repair needs as well as preventative maintenance items identified by the assessments.

Similarly, the benefits that the FSUNP have not been used to help address the County's current and future space needs. Currently, the forms are used only to identify any leases that the department is a party to. Departments do not include information on the amount of space required as initially envisioned for the form, nor does DAS require its inclusion. As a result, the County has not progressed as far as envisioned in developing an ongoing strategic approach to space management.

Reactive vs. Proactive

Lacking a structured strategic approach, the County's approach to facility planning has been one of reacting to specific short-term departmental needs rather than proactively considering a long-term Countywide approach. This lack of a plan for program space became an issue during 2009 deliberations on relocation of the Behavioral Health Division, and again in discussions on the 2010 recommended budget item related to vacating City Campus. As a result of these deliberations, we conducted a review to determine the extent to which the County has implemented the recommendations of our previous audit, including developing a strategic approach to space management. This includes examining existing ongoing files and records documenting the County's available space, how it is being used, and the associated cost data to maintain that space.

Findings

As noted previously, effort to implement our previous report recommendations were good initially, but was not sustained. As a result, only limited progress in developing a strategic property management approach was achieved. We also noted that overall property management continues to be fragmented. Several free-standing programs having their own facilities, such as the Airport, House of Correction, Zoo, and Parks, generally manage their space needs within their own locations. It should be noted that the office space used by most of these programs are limited and sometimes specialized in nature, not lending themselves to sharing space with programs outside their confines.

The bulk of the remaining facilities with space that could be subject to consolidation and sharing by multiple departments are managed by two units. DTPW-Facilities Management Division oversees the majority of County facilities, including the Courthouse Complex and City Campus. However, facilities used predominantly by the Department of Human Services (DHS) are managed by DHS personnel. This includes the Behavioral Health Division's Mental Health Complex, and the Coggs Center. We noted that each of these two facility management units operate relatively autonomously, with little coordination between the two when performing day-to-day tasks, or when special needs arise in course of business.

Table 1 summarizes the amount of usable office/program space for facilities managed by Facilities Management and DHS, along with the amount of space leased by the County to outside entities, and vacant office space. It should be noted that there is no central location from which this information can be obtained. While data on the amount of usable space can be found from a number of sources, we found that the data was often inconsistent. A consultant report issued in 2009 provided a good starting point for our research, but even that contained some inconsistencies. We supplemented information included in that report with data from other sources, discussions with facility managers and onsite tours as needed.

**Table 1
 General Purpose/Office Space Inventory
 Space Owned by Milwaukee County
 (in square feet)**

	County- Occupied Space	Vacant Space	Leased Space	Total Space
Courthouse Complex	476,683	382	3,786	480,851
Criminal Justice Facility	340,662	0	0	340,662
Safety Building	399,219	100,000	2,185	501,404
Community Correction Center	26,912	69,475	0	96,387
City Campus	89,703	31,108	3,300	124,111
CATC	31,755	0	122,184	153,939
Children's Court Center	214,573	0	2,288	216,861
BHD – Mental Health Complex	549,130	0	41,870	591,000
DHS – Coggs Center	<u>133,151</u>	<u>0</u>	<u>75,343</u>	<u>208,494</u>
Total (in square feet)	2,261,788	200,965	250,956	2,713,709

Note: Vacant space located at the Safety Building (former jail space) and the Community Correction Center are considered unusable without extensive capital expenditures.

Source: Facilities Management and DHS facilities management staff

The amount of vacant space has decreased significantly within the past year due to a number of new leases with outside agencies and the relocation of the University of Wisconsin Extension to the CATC complex. The vast majority of lease activity involve CATC, the Mental Health Complex and the Coggs Center. Except for City Campus, there are no viable locations currently with significant usable vacant space available that could be used to house County programs. The only office/program space of significant size that the County currently leases from outside vendors is the 48,808 sq. ft. leased by Aging/CMO at Reuss Plaza.

Table 1 shows that the County is leasing out about 250,000 sq. ft. of space to outside vendors. This is important to note in the discussion concerning City Campus and Aging/CMO. With the initial term of Aging/CMO's contract ending in December 2010, County administration has been looking into less expensive alternatives to the \$763,356 paid annually to an outside vendor. This includes moving Aging/CMO to available County facilities, such as City Campus. A significant issue that affects potential savings with this alternative is the high cost of operating the City Campus facility. The administration is also considering alternatives that involve selling City Campus, and moving affected departments to other available County locations and leasing space for remaining departments from outside vendors via a request for proposal.

In reviewing a couple of alternatives being considered by administration, we noted that they did not consider a couple of important variables in their calculations, such as:

- The amount that the County may be willing to invest in making City Campus a viable alternative to leasing from outside vendors. The facility is old, is not easily adapted to efficient office space usage, and needs extensive repairs to maintain the status quo. To reduce energy costs, the HVAC system needs to be replaced. It is expected that the cost of making the facility energy efficient will have a payback in about eight years.
- Considering the use of office space currently leased to outside vendors at CATC, BHD and the Cogg's Center, if the alternative involves leasing space from other outside vendors. Factors that need to be considered include the cost of operating those buildings, the revenues generated by the leases, and the potential cost of leasing from an outside vendor.

Positive Movement Toward Strategic Planning

In spite of the challenges noted in our review, there are three encouraging indications that these conditions will be addressed. The first is the completion of a study authorized by the County Board as part of the 2009 Adopted Budget for \$50,000 for consultant services to assist DTPW – Facilities Management in formalizing a countywide approach to the strategic use of its space, facilities consolidation and sale of assets. That report provides a good reference point of where the County's available office space is located and how it is being used. It also reinforces the inefficiencies associated with converting buildings not originally designed for office use. It shows how many departments have significantly more space than needed, often due to the building layout.

The second is the attention that has been brought to the subject by the Long Range Strategic Planning Steering Committee. That Committee, by undertaking a discussion of County facilities, recognizes the significant value of our assets, the role that facility operating costs play in maintaining fiscal health and the importance of facilities as a resource in providing service to our citizens.

The third positive sign is the activities of a workgroup of County staff that is developing a request for proposals for addressing the high cost of providing space at City Campus, as well as coming up with a long-term solution for space needs of the Office on Aging and the related CMO. Members of the workgroup, chaired by the DAS Fiscal & Budget Administrator, include the DTPW Director, Director of Operations, and Real Estate Services Manager, DAS Assistant Fiscal & Budget Administrator, a County Board Fiscal & Budget Analyst, and the Director of Audits. The RFP is inviting interested parties to come up with creative solutions to address the above issues in one of three ways:

1. Proposal to purchase the City Campus facility only;
2. Proposal to provide leased office space to the County only; or
3. Proposal to both purchase City Campus and provide leased office space in City Campus or a private facility.

City Campus

The building known currently as City Campus was formerly a hospital consisting of a nine story and a five story structure. Minimum remodeling converted existing patient rooms into offices. Also creating inefficiencies are large hospital corridors, multiple janitorial closets, and patient toilets in addition to public ones. The Wisconsin Preservation Fund acquired City Campus in 1990 through a \$15.9 million revenue bond issue, and renovated and leased it to Milwaukee County. In 1993, the County purchased the building from the fund for \$16 million. BHD closed

its operation at the facility in 1995/96, when treatment of mental health patients moved from in-house facilities to the community with the assistance of outpatient clinics.

City Campus costs almost \$2.3 million to operate, much of the cost due to the heating and ventilation system designed for a hospital setting. As a result, the cost per square foot is about \$25 per square foot of occupied space. This contrasts with the Courthouse, which costs \$14/sq. ft to operate. While still a substantial cost compared to today's energy efficient buildings, it is still much less than City Campus. Further, Facilities Management administration indicated that it could obtain a lease rate of \$9/sq. ft., given the current economy and the high supply of available space. This combination has led administration to consider selling City Campus in an attempt to reduce operating costs.

Reuss Plaza

Concurrent with this development is the end of the Aging/CMO lease at Reuss Plaza. Office on Aging moved to Reuss Plaza from its previous location at Schlitz Park in 2006. This current location was selected from proposals submitted by five vendors in response to a request for proposal. The Office on Aging/CMO is currently in the final year of a five-year lease that allows for a subsequent three-year extension, followed by a five-year extension (total of eight years). The current contract provides Aging/CMO with 48,808 sq. ft. of space for \$763,356 for 2009. This translates into \$15.64/sq. ft. However, the net square footage available to Aging/CMO is actually 36,488, resulting in a significantly higher cost per square foot (\$20.92/sq. ft.). These differences become important when comparing rates between vendors, as well as comparing internal facility costs per square foot.

In reviewing the contract, it is clear that extending the current lease is not in the County's best interest. It is unlikely a negotiated extension rate would result in a better rate than soliciting competition from other vendors. Working against an extension is the requirement for the lease to convert to a "triple net" lease. This requires Aging and the CMO to pay its fair share of operating expenses and taxes for the entire buildings based on square footage. This would be in addition to the rental rate per square foot that would be determined during the complex negotiation process prescribed in the current contract.

The end of the current lease at Reuss Plaza has put the County in a position where two options noted in the proposed request for proposal would result in more efficient use of space and significant cost reductions:

1. The Office on Aging could move into City Campus and other departments could move into other County facilities, filling City Campus to capacity, thereby taking advantage of third-party revenue sources; or
2. The County could lease space in a private facility for departments currently located at City Campus, and sell the City Campus facility to a party that is interested in developing the property.

While the RFP only addresses operations currently located in City Campus and Reuss Plaza, this initial step should be constructive in helping policy makers make future decisions about the most appropriate space and the most reasonable cost of occupancy.

We have been informed that the five year lease for County programs located at Reuss Plaza will not be renewed pending the results of the RFP process. While the RFP may not address other major challenges like the long term future of the vacant Community Correctional Center, the viability and future of the Safety Building, a long-term solution to the deterioration of the structures that house the Behavioral Health Division, the location of Children's Court and other facility issues, it is a significant start.

Conclusion

In general, a formalized property management function would help resolve many of the costly issues that face the County. Among these issues are the question of what should be done with some of the buildings located owned by Milwaukee County. A number of these buildings are old and in a deteriorating state. Some may be worth renovating, while others should perhaps be sold or demolished.

A formalized property management process established at a centralized point would provide:

- Better overall knowledge and consideration of the availability of and demand for space, allowing for effective matching of space needs across departmental boundaries;
- Standardization of the space planning process; and
- Establishment of space utilization standards.

The existence of vacant space is costly. Likewise, any activity relating to property utilization (the purchase, renovation, construction, maintenance, or leasing of buildings) involve significant monetary outlays. Conceptually, this foundation alone suggests that property management decisions should result from a process in which strategic planning has taken place, available alternatives are identified and analyzed, and that conclusions are reached based on reliable (current, complete and accurate) information, appropriate policy considerations, and sound economic principles.

We look forward to working with you and other members of the County Board as we address the facility issues facing Milwaukee County government.

Jerome J. Heer

JJH/JAT/cah

cc: Milwaukee County Board of Supervisors
County Executive Scott Walker
Cynthia Archer, Director, Department of Administrative Services
Steven Kreklow, Fiscal & Budget Administrator, Department of Administrative Services
John Rugini, Assistant Fiscal & Budget Administrator, Department of Administrative Services
Jack Takerian, Director, Department of Transportation & Public Works
Brian Dranzik, Director of Operations, Department of Transportation & Public Works
Craig Dillman, Real Estate Director, Department of Transportation & Public Works
Stephen Cady, County Board Fiscal & Budget Analyst