

Category: Infrastructure

State: South Carolina

Department: South Carolina Department of Administration

Lead category: Infrastructure

Category area: Facilities

Project Title: State of South Carolina Real Estate Standard Chart of Accounts

Project Associates: South Carolina Department of Administration staff: Executive Director Marcia S. Adams; Chief of Staff Paul Koch; Real Property Services Director Ashlie Lancaster; Capital Asset Management Director Rick Harmon; Office of Administrative Services Director Steven Lake Chief Financial Officer Renee Rochester; South Carolina Enterprise Information System Program Manager III Bruce Burnett; South Carolina Enterprise Information System Assistant Director Ed Pearce; South Carolina Enterprise Information System Program Manager I Sherry Ervin; South Carolina Enterprise Information System Program Director of SCEIM John Taylor

Other State Agencies staff: S.C. Office of the Comptroller General Senior Assistant Comptroller General Anjali Griffin; S.C. Department of Parks, Recreation and Tourism Director of Finance Yvette Sistare

Private Sector staff: CBRE Executive Vice President Michael McShea; CBRE First Vice President Lee Ann Korst; CBRE Senior Vice President Rolf Kemen; CBRE First Vice President Ben Brantley; CBRE Senior Vice President Martin Moore; Executive Consultant Carlos H. Vesga

Project date: November 12, 2014–June 30, 2016

Executive summary: The state of South Carolina implemented a Real Estate Standard Chart of Accounts to standardize the reporting of operations and maintenance costs and capital expenditures for all state real property. The standard chart of accounts has allowed the State to begin benchmarking operating and financial results with private sector real estate professional organizations to identify cost savings opportunities.

Based on the International Standards Organization's initiative outlined in norm ISO/CD 18480, the South Carolina Department of Administration (Admin) worked with the South Carolina Office of the Comptroller General, state agencies, CBRE and private sector consultants to establish uniform methods to code different real estate expenses under a defined set of expense categories.

Project description: Project Background:

Beginning in the fall of 2014, the State of South Carolina contracted with CBRE to develop a comprehensive statewide real estate strategic plan. The initiative validated the State's real property inventory for both land and buildings, and conducted 138 Operation and Maintenance (O&M) surveys, 150 facility condition assessments on buildings, and 222 space utilization site visits for leased and owned properties.

After analysis of the collected data, CBRE provided the State with the Comprehensive Real Property Evaluation, Strategic Planning and Implementation Report in October 2015. The report recommended South Carolina reduce its real estate footprint by selling properties in need of significant future capital

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investment and with high annual maintenance and operations costs. The report also recommended that the State move from a highly-decentralized management of its real property, to a more centralized system under the South Carolina Department of Administration.

On a high level, data obtained through the 138 O&M surveys (inclusive of nearly 5,000,000 SF) indicated that average O&M expenses on South Carolina's state owned buildings generally trend higher than comparable states with centralized portfolio management, representing a potential savings opportunity of \$35.3 million annually. (South Carolina's average O&M expense is \$13.16/SF. The similar state's average is \$6.03 /SF.)

The use of industry standards to capture O&M allows for identification of buildings and categories of expenses tracking above their benchmarks. Therefore, CBRE recommended that the state adopt a real estate standard chart of accounts with six major account areas. The six areas include administrative, cleaning, repair and maintenance, utilities, security, and roads and grounds. Additionally, there are 99 corresponding sub-accounts.

Project Implementation: In January 2016, Governor Nikki Haley issued Executive Order 2016-06 directing Admin to implement the recommended Real Estate Standard Chart of Accounts. Admin deployed a team to create and implement the Real Estate Standard Chart of Accounts. Team members represented Admin's Division of Real Property Services, Capital Asset Management, Administrative Services and the South Carolina Enterprise Information System, along with the South Carolina Office of the Comptroller General, the South Carolina Department of Parks, Recreation and Tourism, and Executive Consultant Carlos Vesga.

The team established 105 new real estate general ledger account codes (GLAs) and 8,187 internal orders for all state owned buildings and commercial leases. Internal orders provide a defined numbering system, which when used in conjunction with the real estate GLAs, will allow for analyzing and benchmarking costs by expense category and by facility.

During May and June, Admin conducted training for 81 state agencies, with full implementation of the standard chart of accounts by June 30, 2016. The result of this successful implementation means in the future, the State is positioned to better determine areas for O&M strategic sourcing and contract consolidation across agencies, to identify buildings with high O&M costs to determine if they should be renovated or sold, and to compare costs of leasing in commercial buildings with both market rates and state building ownership. Over the coming year, Admin will audit the use of the real estate GLAs and internal orders to provide technical assistance to ensure data integrity.

Why initiated: The project was initiated to provide a standardized mechanism for tracking real estate expenses statewide, by facility, to determine areas for cost reduction and to benchmark costs. With a standardized mechanism in place, the ultimate goal is to continue to move the state of South Carolina toward more efficient management of state resources and improved stewardship of tax payer dollars.

Results achieved: The State created a real estate standard chart of accounts with 105 new general ledger account codes, which are specific to real estate and facilities management industry standards for

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capturing costs, and 8,187 internal orders to track costs by facility.

Project timeline: The project was completed between November 12, 2014 and June 30, 2016. Here is a breakdown of project milestones:

Project Background:

- October 2014: The State of South Carolina partnered with CBRE to develop a Comprehensive Statewide Real Estate Strategic Plan.
- October 2014–October 2015: The South Carolina Department of Administration (Admin) worked with CBRE to compile necessary data to complete a comprehensive real estate study and plan.
- December 2015: Governor Nikki Haley and Admin Executive Director Marcia Adams released the statewide real estate study, plan and recommendations.

Project Implementation:

- January 2016: Governor Nikki Haley issued Executive Order 2016-06 directing Admin to implement the recommended real estate standard chart of accounts.
- January–April 2016: Project team developed new real estate GLSs and internal orders.
- May–June 2016: Admin provided 81 state agencies with training on how to use general ledger codes associated with new the standard chart of accounts.
- June 2016: 81 state agencies fully implemented the new standard chart of accounts.

Significance to the improvement of the operation of government: Prior to implementation of the real estate standard chart of accounts, tracking South Carolina’s real estate management, costs and functions was highly decentralized. Admin manages many state owned buildings, but some agencies self-manage their facilities. Previously, expense tracking within the State’s accounting system provided only high-level data. For example, all contractual expenses were coded as such regardless of what type of contractual expenses they represented. Therefore, without significant analysis of agency specific invoices, it was difficult to determine if the expense was for a janitorial contract, office supplies or marketing expenses for a state-funded program. Development and implementation of a standardized real estate chart of accounts across state agencies allows for tracking, reporting and analyzing O&M expenses in a meaningful way. As such, the project’s significance to improving the operation of government is to provide a granular understanding of what the State pays by expense category, per square foot, and by building and agency. Ultimately, this enables the identification of cost savings opportunities. It also allows for more accurate budgeting by separating real estate expenses from other agency expenses.

Benefits realized by citizens and/or state government: The implemented Real Estate Standard Chart of Accounts has provided the state of South Carolina with a necessary tool for making real, highly-informed business decisions. Use of the chart has begun to produce data on what maintenance and operations areas and facilities should be targeted for greater efficiencies, with the potential for annual savings in excess of \$35 million. As data is collected over time, the chart will provide real estate spending transparency for stakeholders (other state agencies) and citizens.