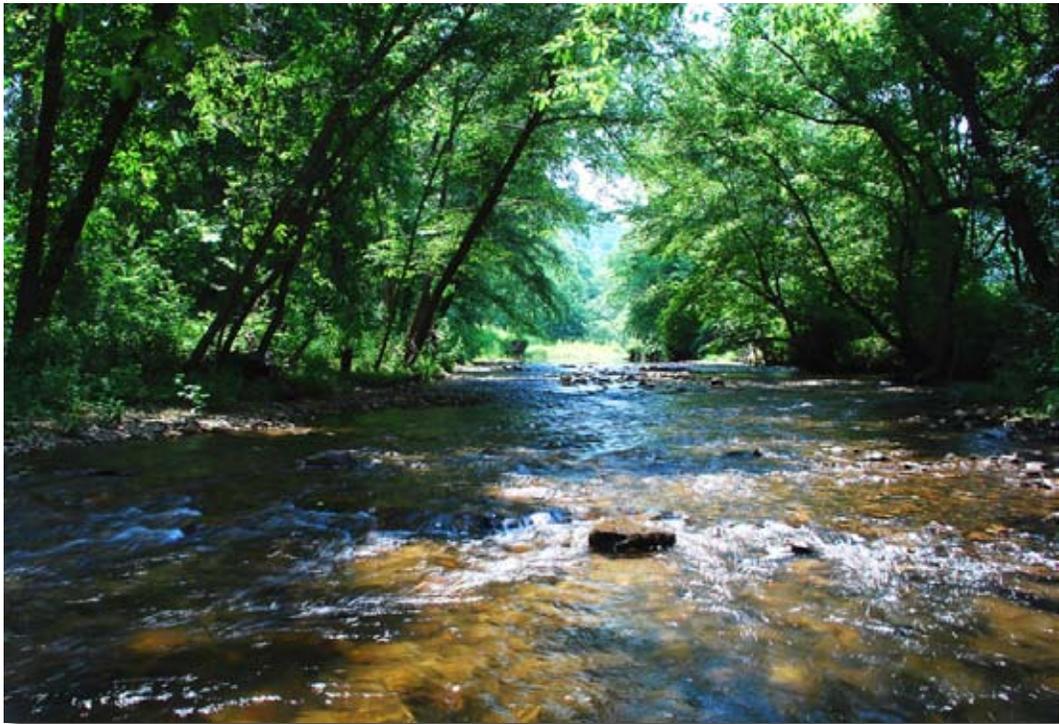


FISCAL YEAR 2010 ANNUAL REPORT



STATE PROPERTIES COMMISSION

*Cover photograph: State-acquired conservation easement,
including eight miles of river frontage along the Conasauga River*

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*Downtown's Peachtree Westin
is built on a ground lease of state property*

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COMMISSION MEMBERS

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GREG GRIFFIN

State Accounting Officer

Vice-chairman

BRIAN P. KEMP

Secretary of State

Board Secretary

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Director, Office of Treasury and Fiscal Services

Board Member

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Citizen Member appointed by Governor

DAVID E. HOMRICH

Citizen Member appointed by Speaker of the House

DR. GEORGE SNELLING, III

Citizen Member appointed by Lieutenant Governor

STEVE STANCIL

State Property Officer

FRANK SMITH

Deputy Executive Director

INTRODUCTION

As the state's Real Estate Portfolio Manager, the State Properties Commission is responsible for the acquisition and disposition of all state-owned real property and all real property interests. Additionally, SPC provides leasing assistance to state entities in the location of state owned or commercially owned space. This service includes the identification of lease opportunities, space programming and design, schematic floor plans, lease negotiations with landlords and lease renewals and renegotiations.

Portfolio Management is comprised of three distinct, but coordinated, programs: Asset Management, Space Management and Transaction Management.

- Asset Management is the strategic function that manages the state's real estate assets to provide the maximum value to the state.
- Space Management maximizes the utilization of space to create efficient work environments.
- Transaction Management provides for all tasks related to owning, acquiring and disposing of real estate assets, whether owned or leased, and managing all activities required to lease real property from a landlord.

SPC is also responsible for the inventory of all state-owned and leased real property. BLLIP (Building, Land and Lease Inventory of Property) is the state's data warehouse of all real property assets. Users are able to query by a number of factors, including location, state entity, square footage and use. Individual deeds and plats can also be downloaded and printed for easy reference. The website is www.realpropertiesgeorgia.org.

VISION, MISSION & VALUES

VISION

To be the national leader in State real estate portfolio management by exemplifying stewardship, accountability and integrity.

MISSION

To advise, guide and maximize Georgia's real estate portfolio by applying industry best practices in asset, space and transaction management.

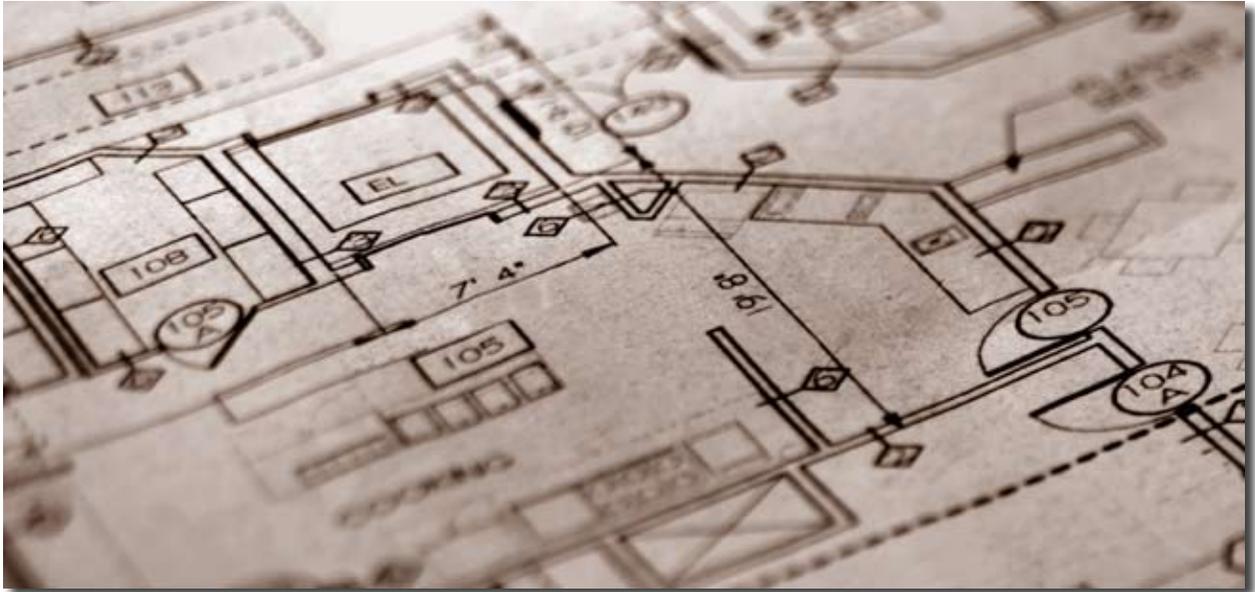
CORE VALUES

- Stewardship
- Accountability
- Integrity
- Leadership

YEAR IN REVIEW

During Fiscal Year 2010, the State Properties Commission continued the development and implementation of its strategic plan. The two agency priorities identified in the plan are to ensure cost effective real estate portfolio management and to provide professional and responsive customer service.

The agency employed several strategies and tools to effectively manage the state's real estate portfolio, including the development of a property disposal list, working toward legislation that will allow the state to enter into multi-year leases, and developing a plan to advertise state space needs.



REAL PROPERTY TRANSACTIONS

Under the direction of the State Property Officer and based upon the recommendations from the Commission for a New Georgia, SPC disposed of over \$15 million of state assets in FY2007 and FY2008. The distressed financial and real estate markets experienced in the last two years have greatly affected the disposition of real estate assets. Several sales were advertised; however, bids either did not meet the appraised values for the property or fell short of the anticipated sales.

SPC approved 11 conservation easements totaling 15,532 acres. While the total cost was only \$38 the total value of these easements was over \$45 million. Additionally, SPC approved 18 tracts for fee simple acquisition. The state acquired 12,705 acres for a cost of \$15,041,702 and a total value of \$42,730,499.

*The state acquired
12,705 acres for a
cost of \$15,041,702
and a total value of
\$43,730,499.*

LEGISLATIVE ACTION

Two resolutions of interest to SPC passed during the 2010 Session of the Georgia General Assembly. Senate Resolution 1083 authorizes the State of Georgia, acting through the State Properties Commission, to convey certain state-owned properties in counties around the State. House Resolution 1588 authorized the State of Georgia, acting through the State Properties Commission, to grant non-exclusive easements for state-owned properties in counties.

SPC continued to pursue constitutional and statutory changes which would have authorized the Commission to enter into multi-year leases on behalf of state agencies. While there was overall legislative support for these measures (Senate Resolution 510 and Senate Bill 254), the legislation failed to pass both houses. SPC will renew these efforts during the 2011 Session.

LEASE HIGHLIGHTS

The State Properties Commission was engaged to research current prevailing market rental rates and assist several state agencies in lease renegotiations – either by negotiating rent reductions at current locations or by or relocating to more reasonably priced facilities. These measures were pursued with the ultimate goal of decreasing the rental rates, increasing agencies' operational efficiencies and reducing expenditures for the state.

...resulted in an agreement to reduce the rental rate for the currently occupied 225,507 square feet by \$6.85 per square foot (annually).

Technical College System of Georgia (TCSG)

SPC evaluated several alternative locations for the TCSG headquarters; however, the current landlord ultimately offered a significant rent reduction, an expansion by 21,242 square feet and a competitive tenant improvement allowance.

In June 2010 an agreement was reached with the landlord to reduce the rental rate for the currently occupied 60,958 square feet by \$4.71 per square foot (annually) from \$20.37 to \$15.66 for FY2011 and FY2012. This significant reduction results in a savings of nearly \$300,000 annually. TCSG's leased space will be expanded by approximately 30 percent to 82,200 square feet and the lease will be extended for an additional 10 years, ending June 30, 2020. The rental rate during the 10 year term extension ranges from \$15.66 to \$19.54 per square foot and represents a favorable rate when compared to projected market rates for the same period.

The agreement also includes a generous tenant improvement allowance which will cover not only initial renovations to the expansion space, but also cosmetic upgrades to the entire facility at the mid-point of the 10 year lease term. Overall, the renegotiated agreement allows TCSG to achieve a much needed space expansion without increasing the amount of its annual rent obligation.

Department of Revenue (DOR)

SPC assisted the Department of Revenue in negotiating a rent reduction at its current headquarters as well as an expansion by 52,335 square feet. In addition, DOR desired to negotiate a termination of its 43,424 square foot (SAM) lease in Hapeville, Georgia in order to consolidate operations at its headquarters at Century Center for a total of 279,742 square feet. These measures were pursued with the objective of decreasing the agency's rent while increasing its operational efficiency.

In 2008 Department of Revenue and SPC began discussions with Highwoods Properties to achieve these objectives by restructuring the existing lease agreement. In December 2009 these discussions resulted in an agreement to reduce the rental rate for the currently occupied 225,507 square feet by \$6.85 per square foot (annually) from \$24.35 to \$17.50 for the remaining term of the lease (18 months). In addition, the lease would be extended for a period of 10 years, ending June 30, 2021. This renegotiation and extension results in savings of \$282,496 in operating expenses, and \$2,179,512 in rental saving for the differential between the current rental rate and the new rental rate for the remaining 18 month term in addition to the significant savings realized with the termination of the Hapeville lease. Further, the 10 year term extension rate ranges from \$17.68 to \$19.71 per square foot and represents a favorable rate when compared to projected market rates for the period. The amended agreement also includes a tenant improvement allowance of \$23.00 per square foot which equates to \$6,434,066. This package will allow DOR to benefit from much needed upgrades to the facility.



SPC managed lease consolidation for the Department of Revenue

State Board of Workers Compensation (SBWC)

After conducting an initial market evaluation, the current landlord offered to reduce SBWC's rent significantly from \$19.25 to \$17 per square foot resulting in a savings of approximately \$900,000 over the remaining six years of the lease term. Effective January 1, 2011, these renegotiated rates range from \$17 to \$18.50 per square foot and represent a favorable rate when compared to projected market rates for the same period. Additionally, parking rates for employees were lowered significantly from \$78 to \$50 per month for 60 spaces with 5 spaces included at no charge. The amended agreement also includes a tenant improvement allowance that will allow the SBWC to benefit from cosmetic upgrades to the facility. Overall savings for SBWC and its employees amounts to over \$1 million.

SPC developed an online, web-based process for meeting state agencies' space requests statewide.

Build-To-Suit – Liberty and Treutlen Counties

In December of 2007, the State Properties Commission released an updated procedures manual for Build-to-Suit facilities through an RFP/RFQ process. Due to a lack of commercial office space available in Treutlen and Liberty Counties, SPC pursued proposals for Build-to-Suit buildings for the Department of Human Services – Division of Family and Children Services (DFCS). With assistance from GSFIC, both projects were advertised, proposals received and evaluated, and developers selected and awarded the projects during FY2010. Both projects are expected to be completed and ready for occupancy in early 2011.

Leasing Property Information Form

SPC developed an online, web-based process for meeting state agencies' space requests statewide. In the past, SPC would receive a request from an agency and then seek to identify potential locations – by getting in touch with current landlords or by visiting specific communities. Beginning in FY2010, SPC employed the online Property Information Form to solicit detailed space offers from area landlords. These offers are compiled and reviewed by the leasing specialist and the agency representative. SPC and the agency representative visit sites to determine if the location meets the agency needs. SPC, state agencies and landlords experienced greater transparency in the lease transaction process, improved customer service with both the agency and the landlord, and increased cost efficiency in state lease expenditures.

SPACE HIGHLIGHTS

Capitol Hill Utilization Reports

During FY2010, the Space Management Program completed utilization studies of all the administrative office buildings (1.7 million square feet) on Capitol Hill. SPC staff walked through each floor and evaluated space use by occupancy and vacancy of work space areas. This information is a critical component of space management as it identifies areas for potential consolidation and backfill from other commercially leased space. It helps to ensure that supply and demand are balanced; that portfolio expenses are minimized; that occupancy is increased and vacancy is decreased; and that all existing space is utilized optimally which improves the value of the state-owned or leased asset. On average, the GBA buildings on Capitol Hill exhibit an acceptable occupancy rate (85 percent or greater by industry standards) of state agency tenants.

Space Management Tracking System

In late FY2009, the Space Management Program (SMP) unveiled its electronic Space Management Tracking application, which allows SMP to track each request for space. The application generates responses to state agencies to let them know that their request was received and that it will be assigned to the space designer/planner. Additionally, there is the capacity for uploading all relevant documents, including completed forms, schematic and design-intent drawings and correspondence. There is also a feature that provides for a short customer service survey to be emailed to the requesting agency upon the completion of the SMP tasks. These surveys will be compiled and used to provide continuous quality improvement for customers.

The screenshot shows the header for the "Property Information Form" with the Georgia State Properties Commission logo. Below the header is a section titled "LANDLORD INFORMATION" with instructions: "If you have property that meets the need for this lease request, SPC invites you to submit your offer for consideration. Please begin this process by selecting your company or landlord name from the list below. Then complete the remaining sections of the form by providing all required information about your property. If your company is not listed, please choose 'Add a New Landlord' from the drop down list to complete the registration form." At the bottom, there is a dropdown menu labeled "COMPANY / LANDLORD NAME" with a "Make a Selection..." button.

Interactive website to advertise space needs

CUSTOMER SERVICE

Improving customer service continues to be a top priority for the SPC and is an integral part of its strategic plan. Important elements of the customer service plan and activities through FY2010 include:

Internal Customer Service:

- SPC staff completed and received an award for completion of all modules of the Art of Exceptional Customer Service
- Customer Service Appreciation Awards were given to SPC Staff for outstanding service to our customers
- Two employees were nominated in the individual category for the Governor's Customer Service Awards
- Team recognition lunches and breakfasts held throughout the year
- Participation in charitable activities included a clothing drive, United Way Shoebox Project and support of the Sullivan House to assist homeless families
- Celebration during Employee Appreciation Week

External Customer Service

- Overview of Acquisition and Disposition Processes and Training to make processes faster and easier for State agency staff
- Overview of Certification of Ownership Process to improve coordination with GSFIC to ensure the proper use of G.O. Bonds
- Monthly Meetings with the agencies that hold the largest numbers of leases in the state to streamline communications, resolve any challenges and to promote the services of SPC.

- SPC sent out surveys to all agencies served by SPC during FY2010. The Commission received positive feedback in such areas as timeliness, clear understanding of our processes, communications and the manner in which services were provided.
- SPC encourages input from customers by requesting them to log on to the "How's my Service" website. Customers can provide both positive and negative feedback, which is reviewed by SPC staff. The Building, Land and Lease Inventory of Property (BLLIP) incident tracking program monitors progress and measures service delivery times of the application. BLLIP allows both the public and agencies to identify buildings, land and leases managed by the state.

Customer Feedback:

... "made an extraordinary effort to assist our agency acquire the needed space for our new IT Computer Training Lab. They have made certain that they met our needs and have supported us with good customer service... Thanks for making our jobs effective."

"...very helpful in planning our adult education center."

"We've been working back and forth for months now on an extraordinary complex project with multiple constituents and in every interaction, she had been the consummate professional. ...pleasant, knowledgeable, responsive. ...a pleasure to know and to work with."

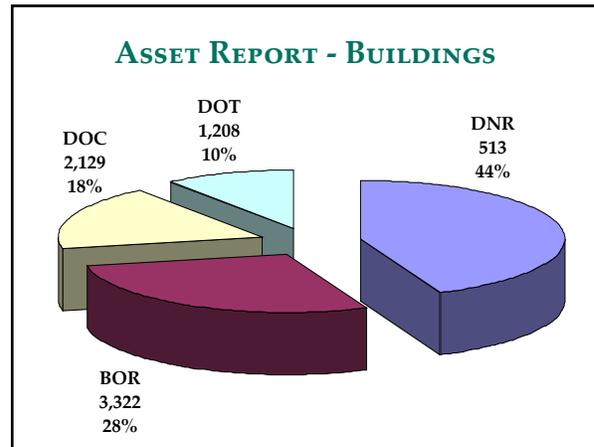
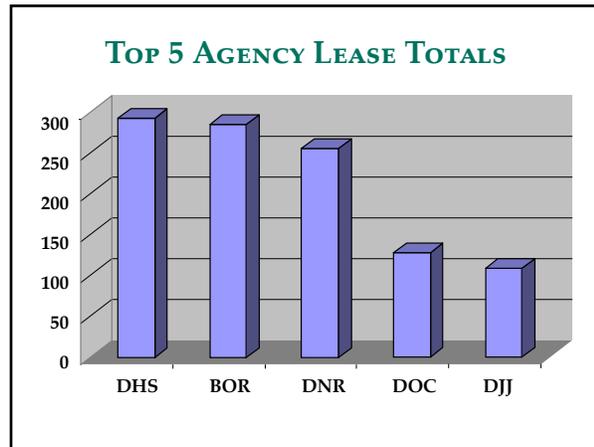
"...phenomenal in meeting my needs of finding a space for my office to relocate to and putting together the appropriate plans in a timely fashion."



Employee Appreciation Day for SPC

FINANCIAL REPORT

The State Properties Commission is charged with the responsibility of managing certain State of Georgia properties and obtaining authorization from the General Assembly for conveyances and easements. SPC leased state owned property and received lease payments in the amount of \$8,127,524 for Fiscal Year 2010. These funds were deposited into the State Treasury.



FY 2010 BUDGET

EXPENSES

Total Personal Services	\$ 1,082,659
Regular Operating Expenses	
Motor Vehicle Expenses	2,129
Supplies and Materials	3,127
Repairs and Maintenance	258
Equipment	0
Rentals (other than real estate)	4,573
Insurance and Bonding	215
Freight, Express and Storage	6,120
Other Operating Expenses	7,101
Total Regular Operating Expenses	\$ 23,523
Other Operating Expenses	
Employee Travel	3,510
Real Estate Rentals	102,669
Per Diem and Fees	57,087
Contractual Services	0
Computer Charges	240
Telecommunications	10,704
Total Other Operating Expenses	174,210
TOTAL EXPENSES	\$ 1,280,392

STRATEGIC INITIATIVES

MULTI-YEAR LEASES

SPC will continue to promote passage of a constitutional amendment to permit the state to enter into multi-year leases. Georgia currently expends significant financial resources and time to deploy, manage and maintain its \$257 million lease portfolio. The state can unlock substantial value by adopting leading industry practices and allow multi-year terms for leases rather than annual leases. This legislation will enable Georgia to realize the following benefits:

- Increase the state's leverage by securing lower rental rates and more favorable tenant improvements
- Develop comparative analyses for site selection and recommendations
- Provide greater transparency and accountability into the service delivery process
- Gain access to market-driven transaction management and lease administration services, including the potential to retain commissions

BLLIP APPLICATION

The Building, Land and Lease Inventory of Property (BLLIP) application has been operational since 2006. Recognized as a national model and awarded the 2007 Innovation Award by the National Association of State Facility Administrators, BLLIP is the single point of reference for accurate asset information for the State of Georgia. This web-based, interactive data warehouse provides state agencies, state officials and the public with access to real-time information. With the addition of the former State Property Register in 2008, BLLIP contains the data necessary for the Department of Administrative Services, Risk Management Program to insure the state's capital assets.

In FY2010, the Governor issued an Executive Order that directed the State Properties Commission to work with state agencies to further the progress and data collection contained in BLLIP. State agencies will be updating all the fields in BLLIP to assist SPC in evaluating all capital assets – owned and leased. This will help SPC identify surplus and underutilized properties, and provide more cost efficient use of existing work space. In the most recent BLLIP upgrade, "data dictionaries" were revised and new fields were added for capacity and occupancy data and for specific building facts and facility conditions to ensure that state funds are prudently expended. These new processes were presented to the Real Estate Management Advisory Team (REMAT) and the information will be updated this year.

BUILDING ASSESSMENT REPORT

The Building Assessment Report seeks to maximize asset utilization and uphold the highest and best use of state-owned facilities by focusing on the existing condition of agency facilities and structures. The assessment incorporates the suitability of the facilities to support the mission of the user agencies. The user agencies reported the assessment within BLLIP, and the asset evaluation is performed by SPC Asset Management. The building assessment report will recommend the best use of each major asset relative to available funding (future disposition, renovation, demolition, or possible sale/leaseback of assets). The report will include investment costs, occupancy, deferred maintenance costs, building functionality, building condition rating, facility condition index and a building recommendation.

Assessing the agency facilities consists of a Level I Facilities Assessment, which utilizes mathematical modeling and life cycles of building component systems to determine their present conditions. A Level I Assessment is a strategic tool for programming and budgeting capital renewal costs and is performed at a macro level based on review of available records, maintenance staff, and visual inspections performed by agency maintenance staff or consultants. A Level I Assessment generates "order of magnitude" cost estimates and building condition.

LEASE ADMINISTRATION SYSTEM

Since the conclusion of the Real Property Transformation Phase II effort, SPC has recognized the need for lease administration software to manage the growing number of leases for state agencies. While the BLLIP application ensures accurate accounting of lease agreement details, it does not provide the business process needs for the size of the portfolio. SPC will review the numerous software packages currently available for real estate transaction management and make a recommendation, depending on budget constraints. Additionally, SPC is exploring the potential of developing an in-house product to bridge the gap and to provide the necessary functionality until resources become available.

IDENTIFY VALUABLE PROPERTY

SPC will also be seeking Statements of Qualifications from firms interested in providing real estate consulting services. The RFQ/RFP process will seek to select the most qualified firm to identify the most valuable properties out of the BLLIP Land database for potential disposition. A cost-benefit analysis will then be conducted to determine if the potential sale revenue outweighs the cost of relocation of state agencies.

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