



MINNESOTA STATE
Board of Trustees

AGENDA ITEM SUMMARY

NAME: Finance and Facilities Committee

DATE: October 17, 2023

TITLE: Contracts Requiring Board Approval: Office Space Lease,
System Office

Action

Review and Discussion

This item is required by policy

Board Policy 5.14, Contracts, Procurements, and Supplier Diversity, requires Board of Trustees approval of any procurement, lease agreement, or professional, technical, or consulting service contract with a value in excess of \$1,000,000 or contract amendment that would increase the total value of a contract to more than \$1,000,000.

PRESENTERS

Bill Maki, Vice Chancellor for Finance and Facilities

Brian Yolitz, Associate Vice Chancellor for Facilities

PURPOSE

The board is asked to approve a lease of office space for the Minnesota State system office and associated functions at Wells Fargo Place in St. Paul, Minnesota for an initial term of 10 years with two (2) five-year options to extend the lease subject to board approval. The first-year lease cost is estimated to be \$1,461,000, a reduction of 42.5 percent from the current lease. The estimated total cost for the initial 10-year term is \$18.0 million.

This lease procures office space for the Minnesota State system office including the Office of the Chancellor, system office staff, and Board of Trustees functions that provide leadership, advocacy, and oversight of the Minnesota State college and university system.

Contract Requiring Board Approval: Office Space Lease, System Office

BACKGROUND INFORMATION

The current Minnesota State system office lease in Wells Fargo Place (WFP) expires on July 31, 2024. All options to extend the current lease terms have been expended.

The Minnesota State system office has utilized leased office space in some form since its inception in 1995. Prior to that, each predecessor system leased its own “central office” space in downtown St. Paul. The Minnesota State system office and associated functions have been located in WFP in some capacity since 1998.

The system office presence in WFP peaked in 2005 with approximately 103,000 square feet of leased space across six floors. In 2012, the lease was amended, reducing the presence by approximately 14,000 square feet (14 percent) and extending the term through July 31, 2022. In January 2022, the board exercised the remaining lease option and approved an extension through July 31, 2024 for the remaining 89,000 square feet. This action allowed system office leadership to enter into a deliberate process to assess, understand, evaluate, and implement best practices and procedures and workforce posture for future office space needs. As part of this process and in partnership with WFP building management, approximately 14,000 square feet of space (16 percent) from the second floor was returned to WFP management effective September 30, 2023.

WORKFORCE AND SPACE PLANNING

Space planning for the future began in early calendar year (CY) 2022 with a survey of all system office employees and interviews with leadership concerning the role and function of the system office and work force posture preferences. Key concepts and themes from this work included:

- Employees preferred a hybrid office/remote solution to on-sight in-office post-COVID consistent office workers in other sectors
 - Why Remote?
 - Commute
 - Work-life balance
 - Easier to focus
 - Access to natural light and outdoor space
 - Why Office?
 - Socialize with co-workers
 - Access to tools and resources
 - Collaboration
 - Separate work from personal life
- Office space needs to support how employees connect and serve our campuses
- Need to create an equitable office experience for all
- Flexible work may improve talent attraction and retention
- Consider being a state entity and office that supports public higher education campuses
- Use the office for collaboration and improve cross-department connectivity

Formal planning began in late 2022 with the creation of a system office space project plan and structure for assessing workforce strategies and needs, and to search for physical space in which to implement those strategies and needs. The plan included establishing an Advisory Team representing each system office division and cabinet staff entity. The Advisory Team met on a recurring basis developing strategies, reviewing options, and making recommendations for the Executive Cabinet's consideration as well as serving as a conduit for sharing information with their individual divisions and work groups.

A real estate consultant (CBRE, Inc.) was selected through a public request for proposal process to assist in two parallel work efforts of the project based on their overall experience and expertise, especially around work with public entities, including several State of Minnesota entities, and local work in the Twin Cities metropolitan area. CBRE, Inc. is the world's largest commercial real estate services and investment firm, with the #1 global market position in leasing, property sales, property management, occupier outsourcing and valuation. CBRE offers a full spectrum of integrated services, including 15 primary business lines and nearly 100 specialty practices, designed to assist clients. CBRE's two Minnesota based advisors have nearly 50 years of real estate experience in the Twin Cities metropolitan area.

First, CBRE guided development of a workplace strategy plan based system office workforce policy and demonstrated space use coupled with industry practices and trends leading up to and post pandemic. At the same time, CBRE provided real estate brokerage services for the review, solicitation, and selection of lease properties. Both work efforts were informed by system office employees and leadership.

The foundational step in the work force strategy process was outlining the purpose of employee office spaces, and determining the location and space attributes that enhance the employee experience and effectiveness of the system office organization and associated functions. These included:

- Location:
 - Proximity to the State Capitol complex and state agencies such as Minnesota Management and Budget
 - Ease of access by driving, mass transit (light rail and bus), biking, and walking
 - Safety
 - Parking

- Access to complementary amenities:
 - Food and dining
 - Hotels
 - Banking or shopping
 - Day care
 - Fitness and healthcare

- Physical space:
 - Sized to workforce strategy

- Flexible spaces able to meet current and future needs
- Seamless technology throughout
- Mix of offices, workstations (cubicles), team, and conference rooms
- Access to natural light
- Equitable
- Enhance connection and collaboration
- Community or shared space
- Accessibility
- Sustainability

Initially, publicly owned space was considered as a potential location for the system office. No Minnesota State college or university campus had enough unused or underutilized space available to house the system office and associated functions. Chancellor Malhotra believed collaboration and synergy between system office functions was critical to organizational effectiveness, efficiency, and unity of effort and dispersing individual functions or units to multiple office locations on campuses or other work sites would be counterproductive.

Upon inquiry, the Department of Administration reported that while they were in the midst of a strategic plan for state agency spaces, there was not space readily available to host the anticipated footprint of the system office and that accommodating the dislocated occupants of the Minnesota House of Representatives State Office Building during that building's renovation and expansion was exacerbating their space planning work.

WORKFORCE STRATEGY PLANNING

To gain an understanding of the system office organizational and workforce needs, CBRE's workplace strategy team began a research and analysis process to ultimately offer options and scenarios for consideration in developing the future Minnesota State system office workspaces. This work started with reviewing past employee survey data, current or as-built workplace floorplans and configurations, and recent system office space use history. A visioning session was held with system office cabinet members followed by a series of interviews and questionnaires with workgroup leaders and supervisors.

In August, the Workplace Strategy Report was finalized and presented to Cabinet and Extended Cabinet outlining findings and recommendations that included:

- Preference for work in a hybrid model
- Underutilized space drives inefficiencies
- Desirable workplace experience is a priority

The report offered a baseline of current space utilization and three (3) workplace scenarios based on varying workspace assignment standards, hybrid space sharing ratios, and office and workstation sizing. The recommended scenario endorsed by Executive Cabinet included a workspace assignment standard encompassing cabinet members, their executive assistants, and employees, roles, or functions with demonstrated 3-day per week in-office, on-site work history; a hybrid workspace sharing ratio of 1.6 employees per 1 workspace (1.6:1); and a hybrid office to workstation (cubicle) ratio of 5.6:1 or 5.6 hybrid workstations (cubicles) per 1 hybrid office.

This scenario provided a balance of efficient space use, office vibrancy, and flexibility for the future. In addition, the recommended scenario noted that the combination of assigned and hybrid workspaces and accompanying focus, team, and conference rooms provide adequate seating for the peak system office space use experienced during the first six months of 2023.

To complement the workspace strategy planning work, members of the Advisory Team reviewed practices and visited sites of other commercial and public entities engaged in transforming their office spaces for the future including Thomson Reuters, General Mills, BWBR, and Minnesota Departments of Administration, Employment and Economic Development (DEED), and Revenue.

REAL ESTATE SEARCH AND SOLICITATION

While the workplace strategy work was underway, CBRE’s real estate brokerage team began identifying candidate properties meeting the attributes highlighted as desirable for the future system office space. They scanned commercial properties in the Twin Cities metropolitan area. After discussion with the Advisory Team, 15 candidate properties were identified with readily available floor space to accommodate the anticipated system office footprint within a 5-mile radius of the State Capitol. After viewing details including, but not limited to, building location, age, ownership, available space and representative estimated rates for net rate (lease) and taxes and operations, the list was narrowed to five (5) properties. These properties were each visited by members of the Advisory Team in late June 2023.

A request for proposals (RFP) for office space was issued on Monday, July 24, 2023, with initial proposals due Monday, August 7, 2023. Four properties provided proposals representing a total of five (5) options for consideration. Counteroffers were sought in early September from three properties representing four (4) options. Conceptual fit plans were done on the options provided by these properties. Final offers were sought from two (2) properties in early October.

The Wells Fargo Place property was selected based on economics and workplace strategy attributes to best meet the future needs of the system office, the colleges and universities, and other Minnesota State stakeholders.

A comparison of key elements of the current and recommended lease include:

	August 1, 2023	August 1, 2024	Estimated Change	%
Square footage	89,013	46,073	(42,940)	(48.2%)
Base Rate	\$13.75	\$15.50	\$1.75	12.7%
Operations	\$16.20	\$16.20	\$0.00	0.0%
Annual Base	\$1,223,929	\$714,132	(\$509,797)	(41.7%)
Annual Operations	\$1,442,011	\$746,383	(\$695,628)	(48.2%)
Total Annual	\$2,903,911	\$1,460,514	(\$1,443,397)	(45.2%)

Comparison of space configuration:

	August 1, 2023	August 1, 2024 (Estimated*)	Estimated Change	%
Offices - Total	106	53	-53	-50.0%
Assigned	88	16	-72	-81.8%
Open/Hybrid	18	37	19	105.6%
Workstations - Total	209	132	-77	-36.8%
Assigned	163	53	-110	-67.5%
Open/Hybrid	46	79	33	71.7%
Conference Rooms	28	18	-10	-35.7%
Large (>15)	5	4	-1	-20.0%
Medium (7 to 15)	13	4**	-9	-69.2%
Small (<7)	10	10**	0	0.0%

* Pending final layout and design

** Flexible configuration that may be used for office spaces

FINANCIAL ARRANGEMENTS

This lease and associated work will continue to be funded with biennial state appropriations designated for system office operations. Specifically, over the next several years, savings from realized annual lease costs will repay the estimated upfront project costs associated with the buildout of and move to the new spaces.

NEXT STEPS

Subject to board approval and upon final agreement with Wells Fargo Place, a specific transition plan will be developed including the specific design for the new spaces, demolition and construction of the space to include installation of furniture and technology systems, and the move from and clean-up of spaces to be vacated. The total costs for this work is expected to be on the order of \$9.0 million with approximately \$3.5 million financed through the lease terms as a tenant improvement allowance and the balance financed through the system office budget savings realized over approximately five years due to the reduction in square footage. Priorities will be stewardship of resources while creating professional, equitable, and flexible workspaces for the next decade and beyond.

Change management throughout the process will prepare employees for use and operation in the new spaces. The intent is to create flexible, seamless technology enabled spaces to meet the needs of the Minnesota State system office and its associated activities. Flexibility will allow leadership to respond to changes in workforce posture, technology, and other forces impacting the work of the system office. All system office employees will be impacted during this process.

Recognizing that a workspace location change is not the only significant activity underway in the coming months, an overlay of the Workday implementation and other activities is provided in **Attachment A**.

The Finance and Facilities committee will be updated on project delivery over the coming months and will be presented any contracts requiring Board approval.

RECOMMENDED ACTION

The Finance and Facilities Committee recommends the Board of Trustees authorize the Chancellor or the Chancellor's designee to enter into a 10-year lease at **Wells Fargo Place** not to exceed \$18.0 million over the term for housing the Minnesota State system office and associated functions. This authorization includes provisions for two (2) five-year options to extend the lease subject to board approval.

Date Presented to the Finance and Facilities Committee: 10/17/23

Date Presented to the Board of Trustees: 10/18/23

Date of Implementation: 10/18/23

Project and Program Timeline Overlays

System Office Space Planning – Tentative Estimates:

