Date: August 10, 2023  
To: PERA Board of Trustees  
From: Doug Anderson, Executive Director  
Subject: Space Reduction Proposal

Since moving to the Retirement Systems Building (RSB) over 20 years ago, the three statewide retirement systems (PERA, TRA, and MSRS) have shared building ownership and operating costs. Building ownership and operating costs are determined in proportion to the share of occupied square footage taken up by the three systems. The allocation has been consistent at PERA 36.5 percent, TRA 36.0 percent, and MSRS 27.5 percent.

The Facilities Management Committee (FMC), which consists of the President and Vice President of each system, is responsible for RSB decisions including but not limited to managing building revenue and expenses.

A consistent source of RSB revenue has come from lease agreements. The State Board of Investment (SBI) is currently the sole entity leasing space from the retirement systems. Revenue from the SBI in FY24 is expected to be $277,656 of which, 36.5 percent, or $101,343 is allocated to PERA.

Over the history of the RSB there have been no significant changes to the footprint of each retirement system. One recent change to leasable space occurred when the Secretary of State vacated the space on the first floor of the building.

Both MSRS and SBI have expressed interest in changing their current space arrangements. MSRS has expressed interest in acquiring the current SBI space on the third floor to accommodate growth in personnel. Meanwhile, SBI also desires to expand their workspace. The only currently available leasable space for SBI to inhabit is the vacant space on the first floor. This space alone does not accommodate their staff growth.

PERA staff have had discussions both with the Executive Directors for MSRS and SBI and internally amongst our Executive Team. Under consideration is whether PERA can benefit by reducing our building footprint, making it available as an option for SBI to lease.

Since the onset of the pandemic in 2020, PERA was able to quickly adapt to a telework model for the vast majority of our staff. Approximately 85 to 90 percent of staff work either the majority or all of their time from home. The other 10 to 15 percent are either required to be onsite full time (ex. Mail center employees) or are onsite periodically. PERA does not have a formal “anchor day” or minimum onsite requirements. However, managers and supervisors are generally in office most Wednesdays.
PERA managers and supervisors have had many discussions over the past few years weighing the appropriate level of commitment to the telework approach. Consistently management has considered production and efficiency to be comparable to when staff was onsite. Positives have been staff appreciation of the flexibility and the ability to recruit and hire staff from outstate Minnesota. Concerns have included some staff feeling less engaged. PERA management has concluded that the ability to embrace telework is a work model that is positive for PERA.

With the commitment to teleworking, PERA’s need for floor space is diminished. Management believes that our space could be reduced by as much as 20 percent without any adverse impact to our operations.

The primary incentive for PERA to reduce space is the potential positive financial impact. In addition to an expected increased share of revenue from SBI expanding their lease, there is an expectation that the allocation formula historically based on percentage of occupied space will also change in PERA’s favor. PERA would expect a lower allocation of building expenses, which could range from $50,000 to $100,000 per year.

An additional consideration is that SBI, if unable to expand as desired within the building, could choose to leave the building entirely. Finding a new tenant could be a challenge at a time when other entities may also be considering a reduced footprint.

PERA staff has considered that the current commitment to telework could change via either a PERA management decision or a statewide mandate. This concern would be addressed by negotiating a contingency plan for PERA to reassume the space that is leased to SBI if needed.

In order for PERA to release space and for SBI to expand their lease significant work is required to ensure all parties can agree to terms. Before proceeding with these steps, PERA staff desires support from the Board to continue with discussions and begin negotiations. If terms are not acceptable, PERA is not obligated to complete the process.

**Staff Recommendation**

Staff recommends that the Board support continued evaluation and discussions with SBI and the FMC to consider a potential reduction of up to 20 percent of PERA’s current occupied space and lease space to SBI.