



# PERFORMANCE AUDIT REPORT

## Assessing the Benefits of Leasing Versus Owning Office Space for State Employees

### *Executive Summary* *with Conclusions and Recommendations*

A Report to the Legislative Post Audit Committee  
By the Legislative Division of Post Audit  
State of Kansas  
March 2000

# ***Legislative Post Audit Committee***

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## ***Legislative Division of Post Audit***

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LEGISLATURE OF KANSAS  
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March 2, 2000

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with a summary of our recommendations and the agency responses, from our completed performance audit, *Assessing the Benefits of Leasing Versus Owning Office Space for State Employees*.

The report contains an appendix which shows all the office space leased by State agencies within Shawnee County, as of December 1999.

This report includes several recommendations for the Department of Administration and one for the Legislature's Joint Committee on State Building Construction. We would be happy to discuss these recommendations or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in cursive script that reads "Barbara J. Hinton".

Barbara J. Hinton  
Legislative Post Auditor



**Assessing the Benefits of Leasing Versus Owning  
Office Space for State Employees**

**EXECUTIVE SUMMARY**

**LEGISLATIVE DIVISION OF POST AUDIT**

**Question 1: What's the Most Cost-Effective Way to  
Provide Office Space for State Agencies?**

**Numerous factors can come into play when deciding how best to provide office space.** .....page 8  
*Economic factors—such as interest rates, building operation and maintenance costs, and lease rates—need to be considered. Non-economic factors include the desire to have State offices located “downtown,” flexibility of the space, and accessibility for the public.*

**It's difficult to know what factors State officials considered in the recent decisions to purchase or construct office buildings downtown.** .....page 8  
*The Division of Facilities Management solicited proposals in 1997 for leasing office space near the Capitol. In all, 24 developers submitted proposals and a selection committee was formed to evaluate the proposals. The State ultimately decided to purchase an existing building from the Security Benefit Group, and to build 2 other office buildings—the Signature Building at 10<sup>th</sup> and Jackson, and the Myriad Building at 5<sup>th</sup> and Van Buren. We found little documentation of analyses performed on the proposals, or the rationale for the State's decisions regarding the 3 buildings selected.*

**After the Signature, Security Benefit, and Myriad buildings are filled, the State still will lease enough office space to consider constructing or buying additional buildings.** .....page 12  
*We estimated that the State still would be leasing approximately 521,000 square feet of office space after all the newly acquired buildings are filled. Because of this, we looked at the possibility of constructing another new building or buying an existing building. In general, it appears it wouldn't be cost-effective for the State to build another major office building, unless it could be done for less cost than the Signature Building. But it may be cost-effective to consider buying an existing building where the State leases a considerable amount of space.. More complete financial information and analysis would be needed before a decision could be made.*

**Better information about State leases could help the Department of Administration in analyzing future decisions about State buildings.** ..... page 14  
*The Division of Facilities Management maintains a database that contains lease information, but we found the database had some inaccuracies. The Division recently purchased comprehensive facilities management software that will allow its staff to provide information to the Legislature about funding needs for maintenance and the consequences of deferring maintenance.*

**Kansas has used a number of methods to acquire buildings.** ..... page 15  
*Over the years, Kansas has used General Fund appropriations, issued bonds, and entered into lease-purchase agreements to acquire buildings. The 3 newest buildings acquired by Kansas were acquired through lease-purchase arrangements. Other states we contacted haven't used lease-purchase arrangements to acquire new buildings over the last decade.*

Instead, they used general obligation bonds, state appropriations, revenue bonds, and certificates of participation to finance building acquisitions.

**Question 1 Conclusion:** With numerous State agencies scattered in so many buildings around the Topeka area, it makes sense to do some long-range planning aimed at consolidating office space and looking at the most cost-effective ways of housing State employees. There's no standard method of providing office space that will always be the most advantageous. Sometimes it will be better to build or buy existing space, and sometimes it will be better to lease, depending on the specific economic and non-economic goals that are to be achieved at that time. However, when these decisions are made it's critical that the State have complete and accurate information about its lease costs, and that it considers all factors—both economic and non-economic—that have a bearing on a particular situation. It's also important that things such as cost-benefit analyses and rankings of proposals be fully documented and maintained so that State officials can demonstrate how they made their decisions, and that those decisions are truly in the State's best interest. .... page 16

**Question 1 Recommendations:** We recommended that the Department of Administration develop procedures specifying the types of analyses that will be performed or considered for future acquisitions of office space, and that those analyses be formally documented and maintained in accordance with State records retention requirements. We also recommended that the Division of Facilities Management should work with State agencies to develop a complete and accurate database of leased space. .... page 17

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## **Question 2: Could Kansas Save Money by Having The Department of Administration Negotiate All Leases?**

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**In Kansas, individual agencies negotiate their own leases, but those leases must be approved by the Secretary of Administration.** ..... page 18  
The current Director of Facilities Management favors moving to centralized lease negotiations. He thinks this change could save the State money and would lead to more consistency in leases. Centralizing this responsibility would require a change in State law. Centralized lease negotiations won't necessarily eliminate differences in lease rates paid by different agencies occupying space in the same building, but it might put the State in a better position to negotiate concessions from landlords.

**Centralized leasing offers a number of advantages that could save the State money, but there also can be some disadvantages for State agencies.** ..... page 20  
Some advantages include consistent space standards, potential for volume discounts, and agencies not getting into bidding wars for the same space. On the other hand, some agencies don't want to lose their ability to make their own lease arrangements and others think it might be difficult for one agency to negotiate all leases Statewide. Officials in 5 of 6 states we spoke with offered positive comments about the benefits of centralized lease negotiations. Officials from Kansas agencies were less enthusiastic—83% replied they were either uncertain or opposed to the concept of centralized lease negotiations. The concept got mixed reviews from 3 landlord representatives we talked to.

**Question 2 Conclusion:** Based on 6 states we contacted, it ..... page 22  
appears that Kansas is in the minority in not having a central agency  
designated to perform lease negotiations. Although some State agencies  
have expressed concern about their needs not being met or losing control  
of their lease negotiations under a centralized process, it appears the  
potential for efficiencies and benefits that could accrue from such a  
process outweigh the limitations. In addition, most agency concerns could  
be addressed by requiring the Department of Administration to work  
closely with agencies in determining their space needs, and by providing  
for an appeals process for agencies that think their needs aren't being  
met.

**Question 2 Recommendations:** We recommended that the Joint ..... page 22  
Committee on State Building Construction consider the merits of centraliz-  
ing the function of leasing space for State employees. If the Committee  
determines that centralization would benefit the State, then it should  
consider introducing legislation to grant a single agency the authority to  
enter into lease arrangements for the State.

In its response, the Department of Administration generally  
agreed with the report's findings and recommendations.

**APPENDIX A:** Scope Statement ..... page 23

**APPENDIX B:** Kansas Agencies that Lease Office Space in ..... page 27  
Shawnee County

**APPENDIX C:** Summary of Assumptions and Data Limitations ..... page 30  
Relevant to Legislative Post Audit's Analysis of Constructing a Second  
State Office Building and Acquiring the Mercantile Bank Building

**APPENDIX D:** Agency Response ..... page 31

This audit was conducted by Chris Clarke and Joe Lawhon. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Ms. Clarke at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call (785) 296-3792, or contact us via the Internet at: [LPA@lpa.state.ks.us](mailto:LPA@lpa.state.ks.us).