



STATE FACILITY LEASING

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS COMMITTEE
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ISSUE BRIEF

SUMMARY

The state currently leases \$20 million of office space for state agencies. While state leases typically have a non-appropriation clause, the long-term consequences of breaking a lease could cost the state more than the short term budget savings. Six leases costing more than \$200,000 annually come due for renewal in FY 2013 and FY 2014. DFCM monitors state leases and advises agencies on whether to renew or pursue other options.

BACKGROUND

Statute (UCA 63A-5-302) gives the director of the Division of Facilities, Construction, and Management (DFCM) the responsibility to lease real property for state agencies excluding higher education, the Legislature, and the judicial branch. The director has discretionary authority to enter into facility leases with terms up to ten years. Facility leases with terms of more than ten years must be approved by the State Building Board. All leases are contingent on and subject to Legislative appropriations.

DFCM leases a variety of property types from hangers to parking lots. This brief focuses on office space. The state currently leases over 1 million square feet of office space costing \$20 million. The Department of Human Services spends the most on leasing of any state agency - \$7 million of the \$20 million total. The Division of Child and Family Services within the department accounts for \$4 million and the Office of Recovery Services holds the highest cost lease in the state - \$1.5 million for the HK Tower.

DISCUSSION AND ANALYSIS

Non-Appropriation Clause

Most facility leases entered into by DFCM contain a non-appropriation clause that allows the state to exit the lease in the event the Legislature does not appropriate funding for the lease. In recent years a few agencies have asked DFCM to break leases under this clause as a result of reduced budgets. DFCM, however, requires explicit Legislative authorization, not simply a reduced budget, in order to exercise this clause and break a lease prematurely without landlord negotiation.

Professionals at DFCM caution that breaking any state lease prematurely in this way would likely result in higher rent over time and less favorable terms for the state as landlords could view state leases as high-risk. The long-term consequences of higher state leasing costs are therefore likely to eclipse the short term gains from ending a lease.

Vacant Space in State Buildings

Table 1 at right lists properties owned or leased by the state with vacant space. The first property listed is the old Department of Environmental Quality building owned by the state. The next two buildings are former Alcoholic Beverage Control retail facilities owned by the state. The final property is warehouse space in the Freeport Center that the state acquired at no cost from the federal government.

Ownership	Type	Location	City	Space S/F
State-owned	Office	Former DEQ #1 Building	Salt Lake City	500
State-owned	Retail	1475 South Main (DABC)	Salt Lake City	3,660
State-owned	Retail	Old Cedar City DABC	Cedar City	3,660
State-owned	Warehouse	Freeport Center Bldg C-7	Clearfield	8,000

Vacant State Land

The state currently owns four significant pieces of property as listed in Table 2 below. The White Ball Field located across from the State Fair Park is the last major piece of land owned by DFCM in Salt Lake City and where DFCM proposes the construction of a future state office building. The State Developmental Center property is encumbered by law and requires a significant approval process with proceeds going into a trust fund for people with disabilities. The property at point of the mountain houses the state prison and provides a security buffer with neighboring communities. A Prison Relocation and Development Authority (created in H.B. 445 from the 2011 G.S.) is currently evaluating options for developing the prison property.

Ownership	Type	Location	City	Acres
State-owned	Land	White Ball Field (N. Temple)	Salt Lake City	11
State-owned	Land	State Developmental Center	American Fork	250
State-owned	Land	Point of Mountain Prison	Draper	600
State-owned	Land	Regional Center	Brigham City	11.5

Annual Leases over \$200,000

The following table details office space leases in the state costing over \$200,000 annually. Of the total \$20 million leased state office space, these 25 leases account for \$10.5 million of the total. The average cost per square foot for standard office space leased by the state is \$18.58.

Agency	Location	Exp Date	Sq Ft	FY13 Rent	Cost / Sq Ft
DHS-DCFS	305 NORTH MAIN, TOOELE	12/31/2013	9,385	\$208,785.50	\$22.25
DWS	150 N 400 E, ST GEORGE	11/30/2016	10,571	211,419.96	\$20.00
DWS	1951 WEST 5400 SOUTH, ROY	11/30/2013	16,197	309,855.09	\$19.13
Courts	6300 N SILVER CREEK DR, PARK CITY	4/30/2021	15,096	253,464.00	\$16.79
Courts	75 E 80 N, AMERICAN FORK	9/30/2022	27,558	349,300.00	\$12.68
DWS	2750 SOUTH 5600 WEST, WEST VALLEY	11/30/2013	12,679	324,998.13	\$25.63
DHS-DCFS	300 E 6100 S, MURRAY	9/30/2013	29,874	527,540.48	\$17.66
DCFS	2655 W LAKE ERIE DRIVE, WEST VALLEY	6/30/2015	26,736	675,800.52	\$25.28
REHAB	50 W BROADWAY, SALT LAKE CITY	1/31/2019	9,484	257,364.56	\$27.14
PubEd-DDS	210 WEST HARRIS AVENUE, SALT LAKE CITY	7/31/2020	27,300	708,093.75	\$25.94
PubEd-Deaf & Blind	3098 S HIGHLAND DR, SALT LAKE CITY	7/31/2015	13,200	201,564.00	\$15.27
DHS-DCFS	12537 SOUTH CROSSING DRIVE, RIVERTON	9/30/2014	13,684	324,869.10	\$23.74
Courts	775 WEST MAIN STREET, SPANISH FORK	6/30/2027	31,779	974,625.00	\$30.67
GOED	60 E SOUTH TEMPLE, SALT LAKE CITY	4/30/2017	24,297	513,605.68	\$21.14
Health	515 EAST 100 SOUTH, SALT LAKE CITY	12/31/2017	25,618	202,809.17	\$7.92
DOC-Pardons	448 E 6400 S, STE #300, SALT LAKE CITY	6/30/2016	12,335	247,489.44	\$20.06
AG	5272 COLLEGE DRIVE, MURRAY	6/30/2017	26,285	315,420.00	\$12.00
DHS-DJJS	61 WEST 3900 SOUTH, SALT LAKE CITY	6/30/2018	19,235	316,501.95	\$16.45
DABC	1863 E 7000 S, SALT LAKE CITY	6/30/2020	14,624	297,013.44	\$20.31
DHS-ORS	515 EAST 100 SOUTH, SALT LAKE CITY	6/30/2018	97,246	1,479,044.52	\$15.21
DHS-DCFS	475 WEST PRICE RIVER DRIVE, PRICE	6/30/2017	15,911	286,907.19	\$18.03
DHS-DCFS	115 West Golf Course Road, Logan	6/30/2016	18,153	296,256.96	\$16.32
SITLA	675 EAST 500 SOUTH, SALT LAKE CITY	4/30/2013	22,226	455,965.87	\$20.51
Courts	745 SOUTH MAIN, BOUNTIFUL	6/30/2015	24,804	336,103.01	\$13.55
DWS	475 WEST PRICE RIVER DRIVE, PRICE	6/30/2013	17,151	354,190.45	\$20.65

Table 3

The HK Tower located at 515 E. and 100 S. in Salt Lake City is the state's costliest lease at \$1.5 million a year. The Office of Recovery Services (ORS) currently occupies this space.

State code allows the judicial branch to retain control of their facilities and operations independent of DFCM. DFCM maintains a list of Courts building leases (like those listed in Table 3), but does not actively manage or negotiate them.

Leases Expiring in FY 2013 or FY 2014

Table 4 below lists all office space leases costing over \$200,000 a year that end between 1/1/2013 and 6/30/2014.

Agency	Location	Exp Date	Sq Ft	FY13 Rent	Cost / Sq Ft
DHS-DCFS	305 NORTH MAIN, TOOELE	12/31/2013	9,385	\$208,785.50	\$22.25
DWS	1951 WEST 5400 SOUTH, ROY	11/30/2013	16,197	309,855.09	\$19.13
DWS	2750 SOUTH 5600 WEST, WEST VALLEY	11/30/2013	12,679	324,998.13	\$25.63
DHS-DCFS	300 E 6100 S, MURRAY	9/30/2013	29,874	527,540.48	\$17.66
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DWS	475 WEST PRICE RIVER DRIVE, PRICE	6/30/2013	17,151	354,190.45	\$20.65

Table 4

Department of Community and Culture Move

Last year the Department of Community and Culture (DCC), together with the Governor's Office of Economic Development (GOED) occupied 38,700 square feet of space at 324 South State Street in Salt Lake City and paid an annual rent, including parking costs, of \$563,700 making it the fourth highest lease cost office space in the state. When the lease expired in February 2011 DFCM worked with the agency to find a more cost-effective solution, which resulted in the relocation five blocks west to the state-owned Rio Grande Depot.

CONCLUSION

Six state leases for office space costing over \$200,000 expire in the next 18 months and provide opportunities for DFCM and the agencies to explore more cost-effective solutions including vacant state-owned or leased space. The transition of DCC from leased space to state-owned space will likely save the state several hundred thousand dollars (after operation and maintenance costs are calculated).