



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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May 5, 2025

Senator Myron Dorn, Chair
Legislative Performance Audit Committee
P.O. Box 94604
Lincoln, NE 68509-4604

Dear Senator Dorn:

Earlier this year, the Nebraska Auditor of Public Accounts (APA) began limited preliminary planning work for a projected attestation of State building rental expenditures for the period July 1, 2022, through June 30, 2024. In carrying out that preparation, however, it became clear that the contemplated attestation might be limited by Neb. Rev. Stat. § 84-304(3)(a) (Reissue 2024), which prohibits this office from conducting unauthorized performance audits of State agencies. Consequently, the present letter is intended to provide you and the other members of the Legislative Performance Audit Committee with information that may prove useful in your own official endeavors.

Background Information

The Nebraska Legislature created the Department of Administrative Services (DAS) State Building Division (SBD) in 1974. According to its website (<https://das.nebraska.gov/building/index.html>), the SBD is responsible for providing the centralized procurement, operation, maintenance, and management of State-owned facilities, as well as the independent review, analysis, and oversight of capital construction projects, to ensure that appropriate facilities are obtained for the efficient functioning of State government.

In fulfilling its above-stated purpose, the SBD carries out, among others, the following responsibilities:

- Leases privately owned office and storage spaces on behalf of State agencies, provides space planning services, and coordinates space assignments within both leased and State-owned spaces.
- Manages construction projects for State agencies; manages and maintains certain State-owned buildings and properties, including central office buildings and laboratory facilities as well as operations and maintenance budgets for 24-hour care facilities.
- Manages and maintains related parking facilities.

Neb. Rev. Stat. § 81-1108.15(4) (Reissue 2024) outlines the SBD's powers and duties, including facilities administration, as follows:

- To serve as state leasing administrator or agent for all facilities to be leased for use by the state and for all state-owned facilities to be rented to state agencies or other parties subject to section 81-1108.22. The division shall remit the proceeds from any rentals of state-owned facilities to the State Treasurer for credit to the State Building Revolving Fund and the State Building Renewal Assessment Fund;*
- To provide all maintenance, repairs, custodial duties, security, and administration for all buildings and grounds owned or leased by the State of Nebraska except as provided in subsections (5) and (6) of this section;*

- c) *To be responsible for adequate parking and the designation of parking stalls or spaces, including access aisles, in offstreet parking facilities for the exclusive use of handicapped or disabled or temporarily handicapped or disabled persons pursuant to section 18-1737;*
- d) *To ensure that all state-owned, state-occupied, and vacant facilities are maintained or utilized to their maximum capacity or to dispose of such facilities through lease, sale, or demolition;*
- e) *To submit electronically an annual report to the Appropriations Committee of the Legislature and the Committee on Building Maintenance regarding the amount of property leased by the state and the availability of state-owned property for the needs of state agencies;*
- f) *To report monthly time-cost data on projects to the Governor and the Clerk of the Legislature. The report submitted to the Clerk of the Legislature shall be submitted electronically;*
- g) *To administer the State Emergency Capital Construction Contingency Fund;*
- h) *To submit status reports to the Governor and the Legislative Fiscal Analyst after each quarter of a construction project is completed detailing change orders and expenditures to date. The report submitted to the Legislative Fiscal Analyst shall be submitted electronically. Such reports shall be required on all projects costing an amount equal to or greater than the amount set forth in subdivision (1)(a) of section 81-1108.43 as adjusted by subsection (2) of section 81-1108.43 and on such other projects as may be designated by the division; and*
- i) *To submit a final report on each project to the Governor and the Legislative Fiscal Analyst. The report submitted to the Legislative Fiscal Analyst shall be submitted electronically. Such report shall include, but not be limited to, a comparison of final costs and appropriations made for the project, change orders, and modifications and whether the construction complied with the related approved program statement. Such reports shall be required on all projects costing an amount equal to or greater than the amount set forth in subdivision (1)(a) of section 81-1108.43 as adjusted by subsection (2) of section 81-1108.43 and on such other projects as may be designated by the division.*

State-Owned Buildings and Commercially Leased Space

The APA asked the SBD for copies of the 2023 and 2024 annual reports on building occupancy, which that division is required to create under § 81-1108.15(4)(e). However, the SBD provided only its most recent report, dated December 13, 2024. In our own review of the Nebraska Legislature’s website (<https://nebraskalegislature.gov/>), which is maintained by the Clerk of the Legislature’s office, the APA found only three annual occupancy report filings – those dated December 13, 2024; March 8, 2016; and December 10, 2014. The most recent filing can be found at the link below:

https://nebraskalegislature.gov/FloorDocs/108/PDF/Agencies/Administrative_Services__Department_of/331_20241213-092424.pdf

In this 2024 annual occupancy report, dated December 13, 2024, the SBD reported an overall occupancy rate of 97.07% for the seven buildings that it owned and managed. The highest occupancy rate of 100% was for the 501 Office Building in downtown Lincoln, Nebraska, and the lowest occupancy rate of 94.61% was for the Craft State Office Building in North Platte, Nebraska. Due to the SBD’s failure to file occupancy reports for the past eight years, however, the APA could not accumulate any other historical occupancy information.

The APA could neither verify the accuracy of the reported occupancy rates nor find a study addressing whether the rental spaces – both commercial and State-owned – were used efficiently. Nevertheless, the APA has observed certain instances of unused office space – that gives rise to concerns regarding the effective utilization of such resources by the State.

During fiscal years 2023 and 2024, State agencies paid a total of \$7,260,609 and \$7,982,081, respectively, for State-owned office space. The table below shows the top five agencies paying rent in State-owned buildings for fiscal years 2023 and 2024:

| Agency Name | 2023 | 2024 |
|---|--------------|--------------|
| Department of Health and Human Services | \$ 2,732,883 | \$ 3,079,017 |
| Department of Administrative Services | \$ 2,291,410 | \$ 2,442,393 |
| Department of Revenue | \$ 625,973 | \$ 692,024 |
| Department of Education | \$ 181,380 | \$ 201,540 |
| Supreme Court | \$ 175,195 | \$ 192,809 |

The SBD also reported that the State leased 1,524,034 square feet in 193 commercially owned buildings within 37 Nebraska counties as of December 6, 2024.

During fiscal years 2023 and 2024, moreover, the State paid \$20,346,728 and \$21,988,185, respectively, for commercially leased space. When compared to five years prior – or fiscal years 2018 and 2019 – the State paid \$14,811,047 and \$15,951,323, respectively, reflecting cost increases of over 37% in only five years.

The table below details the five largest commercial leases during fiscal years 2023 and 2024 – all within Lincoln, Nebraska:

| Agency Name | 2023 | 2024 | Property Address |
|---|---------------------|---------------------|---|
| NEBCO, Inc. | | | |
| Workers' Compensation Court | \$ 457,511 | \$ 466,591 | 1010 Lincoln Mall, Suite 100 |
| Department of Environment and Energy | \$ 2,185,742 | \$ 2,212,944 | 245 Fallbrook Blvd |
| | <u>\$ 2,643,253</u> | <u>\$ 2,679,535</u> | |
| State Farm Mutual Automobile Insurance Company | | | |
| Department of Education | \$ 1,897,817 | \$ 2,396,281 | 500 S 84th Street |
| 4600 Innovation Drive, LLC | | | |
| State Patrol | \$ 1,206,765 | \$ 1,463,402 | 4600 Innovation Drive |
| Airport Authority of the City of Lincoln | | | |
| Department of Agriculture | \$ 3,000 | \$ 3,015 | 4100 NW 38th Street, Building #984 |
| Department of Agriculture | \$ 33,516 | \$ 34,159 | Lincoln Airpark West, Building 801 |
| Department of Agriculture | \$ 18,085 | \$ - | Lincoln Airport Authority, Bunker 2710 |
| State Fire Marshall | \$ 7,218 | \$ 7,488 | Lincoln Air Park West, Bunker #2738 |
| Department of Transportation | \$ 108,764 | \$ - | Amen General Aviation Office Building, Suite #150 |
| State Patrol | \$ 252,520 | \$ 250,850 | 3920 W Kearney Street, Building 1344 and 1346 |
| State Patrol | \$ 29,580 | \$ 31,620 | LNK Enterprise Park, Building 865 |
| State Patrol | \$ 16,884 | \$ 16,884 | 3921 W Craw Street, Building 1472 |
| State Patrol | \$ 765,026 | \$ 777,776 | Airpark West NW 39th Street, Building 1342 |
| State Patrol | \$ 23,328 | \$ 26,320 | 2200 W Adams Street, Building 5306 |
| State Patrol | \$ 78,553 | \$ 78,553 | Lincoln Municipal Airport Land and Building |
| State Patrol | \$ 8,865 | \$ 9,198 | Lincoln Air Park West, Bunker #2736 |
| | <u>\$ 1,345,339</u> | <u>\$ 1,235,863</u> | |
| Center on N, LLC | | | |
| Secretary of State | \$ 165,932 | \$ 153,025 | 1201-1221 N Street, STE 120 and 103 |
| Attorney General | \$ 558,738 | \$ 665,986 | 1221 N Street, Suites 101, 305, 400, 403, 500, 601 & LL Stg |
| Workers' Compensation Court | \$ 224,353 | \$ 229,092 | 1221 N Street, STE 402 |
| | <u>\$ 949,023</u> | <u>\$ 1,048,103</u> | |

The table below shows the price per square foot for the two largest State-owned buildings and four of the five largest commercial leases, all of which are located in Lincoln, NE:

| Owner | Building/Location | 2024 Price per Sq Ft |
|--|---|----------------------|
| State of Nebraska | 1526 K Street | \$ 9.66 |
| State of Nebraska | 301 Centennial Mall | \$ 8.33 |
| NEBCO, Inc. | 1010 Lincoln Mall, Suite 100 | \$ 33.43 |
| Center on N, LLC | 1201-1221 N Street, STE 120 and 103 | \$ 21.59 |
| State Farm Mutual Automobile Insurance Company | 500 S 84th Street | \$ 18.58 |
| NEBCO, Inc. | 245 Fallbrook Blvd | \$ 17.24 |
| Center on N, LLC | 1221 N Street, STE 402 | \$ 15.19 |
| 4600 Innovation Drive, LLC | 4600 Innovation Drive | \$ 14.78 |
| Center on N, LLC | 1221 N Street, Suites 101, 305, 400, 403, 500, 601 and LL Stg | \$ 14.22 |

Clearly, renting space in State-owned buildings is significantly less expensive per square foot than leasing commercially.

In a brief online review, several office buildings were listed for sale in Lincoln. Consideration should be given to the purchase or lease purchase of a building for additional office space.

Proposed New State Office Building

Interestingly, on January 30, 2020, less than two months prior to the COVID-19 pandemic, DAS announced plans to build a new State office building on the State Capitol’s geothermal wellfield near 17th and K Streets in downtown Lincoln, Nebraska. DAS’s purpose in constructing the building was to help centralize State government agencies and services while also saving money for the State on office leases.

The State obtained property for the project in 2011. As part of the State Capitol HVAC project – as described online at <https://capitol.nebraska.gov/building/projects/current/> – the State spent \$7.8 million for expenses related to the well field on the site. Additionally, over \$2.2 million on architectural work and rendering documents was incurred for the proposed building on the site. The entire building project was estimated to cost \$56,218,349.

A January 30, 2020, news article, which is available online at <https://www.1011now.com/content/news/Plan-for-new-office-building-in-downtown-Lincoln-announced--567433151.html>, reported the following:

DAS will continue with developing design documents and will issue a request for proposal (RFP) in the summer of 2020 to interested developers. By leveraging a public-private partnership model, the State is estimated to save approximately \$35 million over 30 years when compared to leasing commercial office space over that same time period.

(Emphasis added.) Even with such significant anticipated savings, DAS did not proceed with the construction of the building, and the land at that location remains vacant and is still owned by the State of Nebraska. The current assessed value of the property exceeds \$3.6 million.

Listing of Omaha State Office Building

In another noteworthy event, in February 2025, the SBD website listed for sale the Omaha State Office Building and its accompanying parking garage, located at 1313 Farnam Street, in Omaha, Nebraska. Per that same posting, the SBD is soliciting bids for Real Estate Broker Services to serve as the State’s broker in finalizing the real estate sale of the Omaha State Office Building (<https://das.nebraska.gov/building/realstate.html>).

According to the SBD, bids were received, and interviews were held. The SBD plans to sign a contract around May 1, 2025, to proceed with the potential sale of the Omaha State Office Building and parking garage.

The Omaha State Office Building is listed as 175,706 above grade square footage with 42 parking spaces. The parking facility is listed as a five-story parking garage, totaling 34,555 square feet, and containing 402 parking spaces. State agencies in the Omaha State Office Building paid rent in the amount of \$1,018,476 in the fiscal year ended June 30, 2023, and \$1,146,885 in the fiscal year ended June 30, 2024. In its December 13, 2024, occupancy letter filed with the Clerk of the Legislature, the SBD listed the Omaha State Office Building’s occupancy rate at 97.1%.

The State’s human resource system identifies 452 employees as working out of the Omaha State Office Building. Should that almost fully occupied structure be sold, commercial real estate space would be needed for those employees – at a potentially much higher rental cost per office square foot.

We recommend the Committee consider if a study is needed to determine whether: 1) all rental space – commercial and State-owned – is utilized efficiently; 2) another State office building should be constructed in Lincoln, Nebraska; 3) the acquisition of lease purchase office facilities would prove economically advantageous; and 4) the sale of the nearly full Omaha State Office Building is financially responsible.

State Parking Facilities

In addition to being responsible for managing State-owned buildings, the SBD oversees several State-owned parking lots and garages. To help offset maintenance costs and other expenses, State employees who use the facilities pay a fee, which is deducted directly from their wages. As of September 26, 2023, rates for parking spots at a Lincoln, Nebraska, parking facility range from \$24 to \$50 per month.

The SBD has a parking revolving fund to accumulate the revenues and expenses for parking facilities. The parking fund has two subfunds – one for the Lincoln parking facilities and one for the Omaha parking lot. The activity of the parking fund for fiscal years 2023 and 2024 is detailed below:

| | Fiscal Year 2023 | Fiscal Year 2024 |
|--|---------------------|---------------------|
| REVENUES: | | |
| Contributions from Employees | \$ 800,823 | \$ 849,150 |
| Other Income | 180,184 | 229,330 |
| TOTAL REVENUES | <u>981,007</u> | <u>1,078,480</u> |
| EXPENDITURES: | | |
| Personal Services | 93,689 | 131,806 |
| Indirect Costs | 417,228 | 546,219 |
| Other Operating Costs | 577,449 | 392,379 |
| TOTAL EXPENDITURES | <u>1,088,366</u> | <u>1,070,404</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(107,359)</u> | <u>8,076</u> |
| FUND BALANCES, JULY 1 | <u>1,838,103</u> | <u>1,730,744</u> |
| FUND BALANCES, JUNE 30 | <u>\$ 1,730,744</u> | <u>\$ 1,738,820</u> |

As shown above, State employees remitted parking fees totaling \$800,823 in fiscal year 2023 and \$849,150 in fiscal year 2024. In fiscal year 2023, 38.3% of the expenses paid from the parking revolving fund were for indirect costs. The percentage of indirect costs to total expenditures grew to 51.0% in fiscal year 2024.

According to DAS, indirect costs include expenditures for administration, grounds, architectural and engineering expenses, and security. However, the Omaha parking fund is only allocated costs for administration and architectural and engineering costs.

Interestingly, some State employees who work at locations in commercially rented space in Lincoln, Nebraska, are not charged for parking, including those at the leased spaces in Fallbrook, on S. 84th Street, and at Innovation Drive.

We recommend the Committee consider if a study is needed to determine whether:
1) State parking charges are necessary in garages that are fully paid off; and 2) the rates charged for State employee parking are reasonable.

*DAS Overall Response: See **Attachment A**.*

* * * * *

The preliminary planning work that resulted in this letter was designed primarily on a test basis and, therefore, may not bring to light all existing weaknesses in policies or procedures. Nevertheless, our objective is to use the knowledge gained during the examination of the State's building rent expenditures addressed herein with hopes that this information will be useful to the Legislature.

This communication is intended solely for the information and use of the Legislature. It is not intended to be, and should not be, used by anyone other than the specified parties. However, this letter is a matter of public record, and its distribution is not limited.

If you have any questions regarding the above information, please contact our office.

Audit Staff Working on this Examination

Cindy Janssen – Audit Manager
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Sincerely,



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NEBRASKA

Good Life. Great Service.

DEPT. OF ADMINISTRATIVE SERVICES



Jim Pillen, Governor

May 2, 2025

Senator Myron Dorn, Chair
Legislative Performance Audit Committee
P.O. Box 94604
Lincoln, NE 68509

Chairman Dorn and Members of the Legislative Performance Audit Committee:

This letter is the Department of Administrative Services (DAS) - State Building Division (SBD) response to the Nebraska Auditor of Public Accounts' (APA) letter to the Committee. The references below are from this APA letter, followed by our bullet comments and clarification of the APA claim.

The APA noted the annual report on building occupancy was filed for 2024 but not for previous years.

- This omission was determined by SBD in 2024, prior to the APA review, and corrected immediately

"During fiscal years 2023 and 2024, moreover, the State paid \$20,346,728 and \$21,988,185, respectively, for commercially leased space. When compared to five years prior – or fiscal years 2018 and 2019 – the State paid \$14,811,047 and \$15,951,323, respectively, reflecting cost increases of over 37% in only five years."

During this 5-year period there have been significant operational changes that shifted costs from other places to leased space including:

- 3 DMV Centers in Douglas/Sarpy County and one in Lancaster, these shifted rent costs from the county to the state, but also shifted fee collections more toward the State of Nebraska
- Child welfare contract ending in Omaha Metro and DHHS having to reabsorb the contracted duties including leased space to support the new staff
- Transfer of Project Harmony's space in Omaha from a service contract to a lease to better reflect conditions
- Opening of Lincoln Youth Rehabilitation and Treatment Center
- Multiple leases for swing space to accommodate the Capitol HVAC project

These projects alone account for over \$3.5 Million in rental costs outside of normal operations.

Lee Will, Director

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"Clearly, renting space in State-owned buildings is significantly less expensive per square foot than leasing commercially."

- SBD intentionally works to keep rent rates low to State Agencies in State Buildings
- "Rent" collected funds maintenance personnel, building utilities, equipment repairs, and other limited updates and repairs to State-owned buildings

"In a brief online review, several office buildings were listed for sale in Lincoln. Consideration should be given to the purchase or lease purchase of a building for additional office space"

- SBD actively monitors real estate opportunities for potential ownership
- Several locations in Lincoln are being considered for possible purchase in the future
- As an example of this strategy, in 2024, SBD purchased available real estate in Omaha for NSP Troop A, saving more than \$12M compared to new construction

The APA letter referenced the State obtaining property at 17th & K St., Lincoln for the Capitol HVAC project in 2011.

- The State's intent was to construct an office building and parking garage through a public-private partnership.
- Initial estimates for construction in 2019 were \$58.6M with a total cost over the 30-year loan of \$92M.
- \$92M with interest for a \$58M building is not significant cost savings for a building built with no tenants
- Recent estimates indicate a current construction cost of \$70.5M
- Property is not vacant, with Capitol's geothermal wellfield, it is a critical asset to the State

"In another noteworthy event, in February 2025, the SBD website listed for sale the Omaha State Office Building and its accompanying parking garage, located at 1313 Farnam Street, in Omaha, Nebraska" ... "Should that almost fully occupied structure be sold, commercial real estate space would be needed for those employees – at a potentially much higher rental cost per office square foot."

- DAS is engaging with a broker to sell the Omaha State Office Building (OSOB) and Park II garage
- Current OSOB location is within a high interest area for Omaha development
- The OSOB sale is contingent upon finding an appropriate building(s) to purchase and relocate all agencies in the building and consolidating ~60,000 sq. ft. of other commercially leased spaces in the area
- The OSOB has an estimated \$10-\$20M in near-future maintenance requirements
- The State does not intend to lease space in Omaha to replace the OSOB

"The (parking) percentage of indirect costs to total expenditures grew to 51% in fiscal year 2024."

- Indirect Costs charged to Lincoln Parking have increased due to prior year audit findings regarding the allocation of Lincoln Grounds because of a weight being applied to turf, snow removal, etc. The final decision was to use square feet, which dramatically increased Lincoln Parking's share of the Lincoln Grounds budget/costs.

"We recommend the Committee consider if a study is needed to determine whether: 1) another State office building should be constructed in Lincoln, Nebraska; 2) the acquisition of lease purchase office facilities would prove economically advantageous; and 3) the sale of the nearly full Omaha State Office Building is financially responsible.

- Construction of another office building in Lincoln is cost prohibitive compared to currently available buildings (see \$70.5M estimate above)

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- SBD continuously assesses the Lincoln market for potential real estate, including efforts to purchase property where the State currently leases space
- As noted above, the sale of the OSOB would only occur if another better located, similar operating cost, and larger facility can be purchased from the proceeds of the building

"We recommend the Committee consider if a study is needed to determine whether: 1) State parking charges are necessary in garages that are fully paid off; and 2) the rates charged for State employee parking are reasonable."

- Even though the parking garages and surface lots are paid off, they still require continued maintenance
- The 2019 parking study concluded about \$550,000 (2019 dollars) should be spent per year on required maintenance for garages
- The parking rates have not increased in more than 20 years
- Current monthly rates are: \$24 - lots, \$30 – garages, and \$40/50 for assigned parking in the OCIO garage
- By comparison, City of Lincoln parking garages charge \$85/month
- The 2019 parking study determined State lots should be charging \$45/month to provide for maintenance

We appreciate the opportunity to respond to the APA's letter and will welcome a meeting to further discuss this in greater detail and address your questions. Please feel free to contact me or my team if you'd like to arrange a meeting. I look forward to continuing to work with you on fiscal accountability and increased government efficiencies.

Sincerely,



Lee Will
Director

Lee Will, Director

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