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State Auditor Mike Foley Sheds Light on Excessive State Agency Rental of Commercial Office Space

In a letter sent today to the State Legislature's Performance Audit Committee, State Auditor Mike Foley addresses the considerable expense of leasing commercial space for State offices – which has increased from $16 million in fiscal year 2019 to $22 million only five years later in fiscal year 2024. That cost increase of over 37% is an appreciable price hike that Foley doubts will abate any time soon.

As of December 6, 2024, according to Foley's letter, the State leased 1,524,034 square feet in 193 commercially owned buildings within 37 Nebraska counties – paying as much as four times more per square foot than was expended for comparable office space in State-owned buildings. This enormous price difference per square foot accounts for much of the glaring discrepancy between the costs for office space in State-owned buildings and their commercial counterparts, Foley's letter indicates.

"It is important to note," Foley emphasized, "that this ongoing acceleration in the cost of renting government office space has occurred despite the number of State employees remaining relatively unchanged."

"In recent years," Foley said, "my office has received concerns regarding the cost of using commercial office space." Based on information contained in the State's accounting system or made available by the State Building Division of the Department of Administrative Services (DAS), as reflected in his letter, Foley added, "It appears incontestable that the State is spending far more than necessary on office space for agency employees." He continued, "My intent is to bring that concern to the attention of the Legislative Performance Audit Committee and, ultimately, the Legislature as a whole."

The State Building Division is responsible for, among other things, providing centralized procurement, operation, maintenance, and management of State-owned facilities. When available, office space in State-owned buildings is assigned to government personnel; otherwise, accommodations are sought in commercial properties. In either case, agencies located outside of the State Capitol building must pay rent for their offices. According to Foley, however, reliance upon commercial office space comes at an exorbitant cost to Nebraska taxpayers.

For 2024, Foley's letter notes, the State Building Division reported an overall occupancy rate of 97% for the seven State-owned buildings that it managed. But the audit team has observed instances where there may be more efficient ways of utilizing space in the State buildings to alleviate the need to rent far more expensive commercial space. Foley suggests also that the State consider augmenting its current property holdings through the purchase or lease-purchase of additional buildings for more office space to avoid throwing taxpayer dollars down the drain in excessive rental payments.

In 2020, DAS announced plans for construction of a proposed new State office building in downtown Lincoln, Nebraska – touted in the press as saving "approximately $35 million over 30 years when compared to leasing commercial office space over that same time period." After spending millions of dollars for various costs, including architectural work and rendering documents, the almost $57 million project was abandoned.

More recently, the State began the process of obtaining brokerage services to determine the feasibility of selling its 175,706-square-foot Omaha State Office Building and its accompanying five-story, 34,555-square-foot parking garage with 402 spaces. The State Building Division reported the property as having a 97% occupancy rate in 2024 – meaning that, if it were to be sold, approximately 450 State employees currently working there would have to be relocated to different sites.

Foley stated that he also brought these matters to the attention of the DAS Director and his team. "In his response to the contents of my office's letter," Foley noted, "The DAS Director has affirmed that the State Building Division is continuously assessing the Lincoln market, and several properties are being considered for possible State offices."

Foley observed further, "I am offering for the Legislature's consideration one more possible way to save precious taxpayer dollars – namely, by replacing commercially rented office spaces with State-owned alternatives." While the initial cost of acquiring the needed properties will not be inconsequential, Foley acknowledged, the long-term savings to the State should prove well worth the investment.

"With aggressive legislative leadership and a determined effort," Foley concluded, "I am confident that a positive outcome can be realized."

A copy of the Auditor's letter to the Legislature including the DAS response letter can be found at: https://auditors.nebraska.gov/

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