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Department of Administrative Services: Leased Office Space Utilization at State Agencies

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Audit Report

Summary

PURPOSE

The purpose of our audit was to determine whether state agencies had significant underutilized space in their leased office facilities. If so, our purpose was also to determine the reasons for the underutilized space and whether agencies were taking effective steps to minimize the costs of this space.

BACKGROUND

During fiscal 2006, state agencies leased more than 3.6 million square feet of office space at a total monthly cost of nearly $5 million. Leasing office space can have several advantages for state agencies, including the ability to avoid large capital outlays to purchase facilities, the ability to quickly shift program resources between geographic areas, and the flexibility to better respond to changes in program delivery methods.

The Department of Administrative Services (DAS) has supervisory authority over leases for office space. DAS exercises this authority mainly through the first part of the leasing cycle when it reviews and approves requests for office space. Once the lease is executed, the agency becomes responsible for the lease's on-going administration.

If an agency has underutilized space during the term of a lease that it believes could be subleased, the agency is required to notify DAS. DAS may then take steps to assist the agency in finding potential sub-lessees.

RESULTS IN BRIEF

We identified relatively few leased office facilities (11 facilities, or about 4 percent of the total facilities reviewed) with significant underutilized space. We did find, however, lesser amounts of underutilized space at many other leased office facilities.

We found evidence that agencies take steps to reduce underutilization, such as subleasing unused space, vacating underutilized space and consolidating operations, moving staff to underutilized facilities, negotiating an early buyout of one lease, and seeking DAS help in filling excess space.

Despite agency steps to reduce underutilization, we noted that in certain instances agencies could have taken additional actions to mitigate underutilized space. Given the cost of underutilized office space, such enhanced efforts could be worthwhile.

RECOMMENDATIONS

We recommend the Department of Administrative Services provide agencies with additional guidance for handling underutilized space that they can use to supplement agency policy. General guidance could incorporate:

- defining when to initiate action on underutilized space; and
- suggesting the duration and timing of actions on underutilized space.

AGENCY'S RESPONSE

The Department of Administrative Services generally agrees with the recommendations made in this report. See page 4 for the department's response.

Background

Leasing Office Space Can Provide Several Benefits

According to data maintained by DAS, in fiscal year 2006, state agencies leased more than 3.6 million square feet of office space. This office space was secured by 479 leases and was located throughout the state in facilities owned by entities other than the state. The monthly expense of these leases totaled nearly $5 million. The five state agencies with the highest monthly lease expense in fiscal year 2006 are listed below.

Agency	Number of Leases	Total Square Feet	Monthly Lease Expense
Department of Human Services	132	1,718,071	$2,359,659
Oregon Department of Transportation	78	280,780	$414,884
Department of Justice	22	249,893	$364,638
Department of Environmental Quality	23	322,141	$361,395
Oregon Employment Department	33	223,631	$307,545

Leasing office space can create several advantages for state agencies, especially when state-owned office space is not readily available. Examples of benefits include the ability to avoid large capital outlays to purchase facilities, the ability to quickly shift program resources between geographic areas, and the flexibility to better respond to changes in program delivery methods.

State Agencies and the Department of Administrative Services Have Responsibilities in the Leasing Process

State officials are responsible for using resources efficiently and economically to achieve the purposes for which the resources were furnished. By achieving and maintaining efficient utilization of leased office space, state agencies can reduce the costs of leased space.

Through statute, the Oregon legislature has assigned DAS supervisory authority over leases for office space, which extends to most state agencies. Specific aspects of that authority include the responsibility for developing space utilization standards, the requirement to approve lease or rental agreements for office quarters prior to execution, and the ability to require agencies to relocate to different leased facilities if DAS determines the move is in the best economic interest of the state.[1]

DAS exercises its authority over leased office space primarily through the first part of the leasing cycle, the process of executing a lease. After a lease is in place, the agency is responsible for the ongoing administration of the lease. This includes notifying DAS of any underutilized space that could be leased to another organization. In such cases, DAS may then take steps to assist the agency in finding potential sub-lessees.

Several Factors May Impact Office Space Utilization

Consistently achieving and maintaining target utilization for leased office space can be challenging. In some cases, changes in the number of facility occupants may impair efforts to maintain efficient space utilization. For example, agencies may reduce the number of personnel assigned to a specific leased facility due to changes in service delivery models, with underutilization a possible result; or co-located partner organizations or sub-lessees may choose to re-locate, reducing the total number of occupants in a given facility.

Moreover, space utilization may be influenced by varying numbers of clients served by an agency. For example, the number of clients served by both the Oregon Employment Department (OED) and the Department of Human Services (DHS) are likely to decline during good economic conditions. The number of staff in leased facilities servicing these clients could also decline, leading to less utilization at some facilities.

In other cases, a prudent business decision could initially result in leased facilities with underutilized office space. For instance, the lack of suitable locations within the mission service area may require an agency to lease a facility larger than otherwise needed, or lease a facility with an inefficient configuration of floor space. Another potential justification for underutilized space would be a low lease expense compared with other suitable alternatives. Also, the total costs of moving to a smaller building may exceed the costs of remaining in a larger, underutilized facility. Finally, program growth in a particular geographic location may be incorporated into space needs requests to avoid frequent moving and remodeling costs. In such cases, leased space may initially be underutilized.

Audit Results

Our objective was to determine whether state agencies had significant underutilized space in their leased office facilities. If so, our objective was also to determine the reasons for the underutilized space and whether agencies were taking effective steps to minimize the costs of this space.

We identified relatively few state facilities with significant

[1] DAS management indicated that forced relocation is generally not exercised.

underutilized leased office space.[2] However, we found that lesser amounts of underutilized space existed in many other leased office facilities. We found evidence that agencies make efforts to reduce this underutilized space, but some further efforts may be worthwhile. Also, additional guidance for agencies from DAS could be beneficial.

Few Leased Office Facilities Had Significant Underutilized Space

We found that only 11 facilities, or less than 4 percent of the facilities we analyzed, had significant underutilized space at the time of our review. Of these 11 facilities, one was vacant and totaled 3,000 square feet, one had a block of unused space totaling just under 5,300 square feet, and the other nine had underutilized space within facilities that were otherwise largely occupied. The 11 facilities were leased by four different state agencies.

We also found numerous facilities with lesser amounts of underutilized space. Our evidence suggests this condition is more common than those involving significant underutilized space. We noted that facilities having lesser amounts of underutilized space often had relatively small numbers (one to three) of unoccupied work stations or work areas.

Instances of Underutilized Space Warrant Attention

Even though few facilities at the time of our review had significant underutilized leased office space, even small amounts of underutilized space can be costly. In fiscal year 2006, for instance, the average annual cost to provide leased office space for one person was almost $4,600.[3]

During that same fiscal year, state agencies leased more than 3.6 million square feet of office space. If just 1 percent of this leased office space was underutilized with no off-setting benefit or value, that condition would represent more than $550,000 in excess annual lease costs at the fiscal year 2006 rate.

State Agencies Use Strategies to Minimize Underutilized Space

Agencies reported using several strategies to mitigate the costs of underutilized space. For the 11 facilities we identified with significant underutilized space, we noted agencies were making or had made the following efforts to reduce this space:

- Agencies reported activity to sub-lease underutilized space to other agencies or community partners in three facilities. For example, the OED was in the process of adding occupants through sub-leases to facilities in Redmond and North Bend.
- Agencies reported plans to leave three underutilized facilities and consolidate operations when leases expire.
- For two facilities, agencies added or planned to add staff to the facilities by transferring positions from other facilities or by adding new positions.
- DHS reported that it negotiated an early buy-out of its lease at a Woodburn facility that will save the state $23,500.
- Agencies reported two underutilized facilities to DAS. DAS posted the availability of one of the facilities on its website and contacted agency facility managers about space available in the other.

Some Underutilized Space Needs Further Consideration

Although we noted few facilities with significant underutilized space, we also found additional efforts to mitigate the cost of underutilized space may be worthwhile.

In at least two of the facilities with significant underutilized space, the agency reported that budget cuts and/or withdrawal of partners from the facility created vacant space. We noted the agency identified some efforts to fill the excess space, but did not report these facilities to DAS for DAS action. For one of these two facilities, available information indicates that the agency contemplated further actions to fill underutilized space, but did not undertake any.

DAS provides limited guidance for agencies to use in determining when and what actions to take for facilities with underutilized space. Agencies often provide some guidance for staff on handling underutilized space, but this guidance generally does not define when to first initiate an action, or consistently specify the duration and timing of this or other possible actions. Incomplete guidance for handling both greater and lesser amounts of underutilized space may mean that opportunities to reduce the costs of underutilized space are not explored in a timely manner.

Recommendations

We recommend the Department of Administrative Services provide agencies with additional guidance for handling underutilized space that they can use to supplement

[2] See "Objectives, Scope and Methodology" for how we determined significant underutilized space.

[3] We calculated this value using DAS lease data. Specifically, we multiplied the average yearly cost in May, 2006 of $15.97 per square foot for leased office space by 287.5 square feet per FTE in rentable space. See "Objectives, Scope and Methodology" for additional information about how we derived the 287.5 figure.

agency policy. General guidance could incorporate:

- defining when to initiate action on underutilized space; and
- suggesting the duration and timing of actions on underutilized space.

Agency's Response

We generally agree with the recommendations you make in your report. The Department of Administrative Services (Department) does have a responsibility to ensure underutilization of leased space is kept to a minimum. In addition, we feel the Department is responsible for establishing a system for identifying and prioritizing utilization of leased space. We will implement a system for this purpose while allowing room for improvements that would provide greater consistency in the information reported to the Department.

The Department acknowledges and agrees that it should continue to gather better and more reliable data on underutilized leased space and further our effort to provide guidance to the leasing agencies. Current data is not always consistent and there is variability regarding information on leased space utilization. Improving discussions with agencies, and requesting data on utilization of leased space be submitted to the Department should improve available information. The Department's Facilities Division (Facilities) plans to request information from the leasing agencies, twice a year, to include inventory of leased space and its utilization. Also, Facilities will update the Lease Renewal Form to include an area for reporting any underutilized space.

Another area that Facilities plans to improve is the information provided on the Web page. The Web page will be updated with the new forms, as well as providing a "frequently ask questions" area with answers to common questions asked by lessees and additional guidance to agencies on issues surrounding leased office space.

Since the time that the audit process started, the Department has continued to work on improving practices and coordination amongst leasing agencies. Periodic meetings of the leasing agencies were started in February 2007. Facilities staff have been conducting training sessions for leasing agency's points of contacts to help familiarize them with some of the leasing processes. The Department intends to continue these and other activities to help achieve incremental improvements in this area.

Your audit report is important to us. We always appreciate the time and effort you put into looking at our processes and making recommendations for improvement when needed.

Objectives, Scope and Methodology

The purpose of our audit was to determine whether state agencies had significant underutilized space in their leased office facilities. If so, our purpose was also to determine the reasons for the underutilized space and whether agencies were taking effective steps to minimize associated costs.

We limited our review to leased office space in non-state owned buildings. We excluded non-office space such as prisons, dormitories, and laboratories.

To accomplish our objectives, we reviewed statutes, administrative rules, and DAS policy that govern office space leasing by state agencies. We also reviewed utilization guidelines issued by DAS, industry sources, and the federal government.

Using lease data DAS maintained, we selected 10 agencies to include in our review—the five agencies listed on page two with the greatest amount of leased office space and five agencies with few office space leases. We determined that the lease data DAS provided were sufficiently reliable for our audit purposes.

We judgmentally selected the five agencies with few office space leases. They were:

- Bureau of Labor and Industries;
- Department of Administrative Services;
- Oregon Housing and Community Services;
- Oregon Marine Board; and
- Oregon Watershed Enhancement Board.

Initially, we selected for review more than 300 office facilities from DAS's private lease database. These related leases represented about 63 percent of the total number of office space leases, 80 percent of the total monthly lease expense, and 78 percent of the square footage of office space for leases maintained on DAS's database as of May 2006. Adjustments to the total number of leases to be reviewed resulted in a final total of 294 facilities that we analyzed for utilization.

We obtained from agency staff full time equivalent (FTE) and occupancy data for each leased office facility we included in our review. For square footage, we used the rentable area recorded in the lease documents. We converted DAS's usable square footage guideline of 250 square feet per FTE to 287.5 square feet per FTE in rentable square feet. We then calculated the utilization for each facility based on occupancy and compared the results to the converted DAS guideline. We eliminated from further consideration those facilities that were close to or under this guideline, and focused on only those facilities with a high risk of having significant underutilized space—those facilities with at least 1,500 square feet of office space above the guideline amount. We found that for one type of special office facility—Driver and Motor Vehicles Services Division (DMV) field offices—program space guidelines existed. For those facilities, any field offices close to or under the program space guidelines were also excluded from further consideration.

We further analyzed the remaining facilities by gathering and reviewing information from such sources as:

- office space request forms;
- agency lease file documentation;
- interviews and correspondence with agency facility managers;
- floor maps of office facilities; and
- site visits to office facilities.

In finalizing our determinations on these facilities, we did not consider any single type of information as conclusive in determining underutilization. Rather, we used several types of information that collectively provided the basis for our conclusions.

We did not review the effectiveness of the DAS office space utilization guideline, the Oregon Department of Transportation's space guidelines for DMV field offices, or other special program space needs at the agencies we included in our review.

Our fieldwork covered the time period May 2006 to January 2007. We conducted our audit in accordance with generally accepted government auditing standards.

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Courtesies and cooperation extended by officials and staff of the Department of Administrative Services were commendable and much appreciated.

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