



# CHRIS KAPENGA

WISCONSIN STATE SENATOR

## Testimony on Senate Bill 145

*Committee on Government Operations, Technology, and Consumer Protection*

April 18, 2017

Thank you Chairman Stroebel and committee members for hearing testimony today on Senate Bill 145. I also want to thank Representative Hutton for leading on this issue in Assembly.

One of the major drivers of state operating costs is our physical footprint, meaning properties owned and leased by the state. The current process for determining our footprint needs lacks the transparency and defined processes that help ensure taxpayers are receiving the best value possible.

When examining some of our most expensive leases, there are a number that stand out, most notably the Department of Corrections Headquarters. The assessed value of this property is approximately \$14 million dollars. In 2009, several weeks before shifting to a new administration, the lease was renewed for another five years until 2021, at a price of almost \$5 million per year. The total cost Wisconsin taxpayers will pay on rent from 2010 to 2021 will exceed \$50 million, almost three times the assessed value. This lease was clearly not a good deal for taxpayers.

This bill will help prevent these sort of leases by codifying a set of common-sense business practices and transparency measures that the Department of Administration (DOA) must follow prior to renewing or entering into a new lease. First, prior to signing a lease DOA must conduct a cost-benefit analysis comparing the proposed lease to other comparable lease options AND the alternative of purchasing a space within a 10-mile radius. DOA must then make a determination that the proposed lease rates do not exceed lease rates on comparable properties within this radius by more than 5 percent. This will help ensure that taxpayers are not stuck paying the bill for overpriced leases.

This bill also takes a step to ensure that leases with an annual rent of over \$500,000 are personally signed by the Secretary of the Department of Administration. These larger leases then must be submitted to the Joint Finance Committee, along with the cost-benefit analysis, for a 14-day passive review. This will ensure that leases with the largest cost to the state will receive added scrutiny and verify that Wisconsin taxpayer dollars are used in the most efficient manner.

Wisconsin taxpayers deserve to know that government services are being delivered in the most efficient and effective manner possible. This bill accomplishes this by adopting business practices utilized in the private sector and by providing legislators and the public with the additional transparency needed to fully analyze our cost footprint.

Thank you Chairman Stroebel and committee members for listening to my testimony, and I would be happy to answer any questions.

# Rob Hutton

STATE REPRESENTATIVE • 13<sup>TH</sup> ASSEMBLY DISTRICT

April 18, 2017

To: The Senate Committee on Government Operations, Technology, and Consumer Protection  
From: Rep. Rob Hutton  
Re: Senate Bill 145

## Testimony of Rep. Rob Hutton in Support of Senate Bill 145

Mr. Chairman and members of the committee, thank you for giving Senate Bill 145 a public hearing. When looking at government there are three main drivers to its size and cost. These are people, places, and programs. Places, or the physical footprint, include properties owned or leased by the state. While looking at the state's purchasing and leasing practices we saw areas where we could improve transparency and add protective measures that ensure the taxpayers are getting the best value.

One example, is the lease for the Department of Corrections Headquarters. Its annual lease payment is \$4,955,044. In 2005 the lease was extended to 2016 and in 2009 the lease was extended again until the year 2021. The total cost to taxpayers from 2010 to the end of the extended lease will exceed \$50 million or almost 3 times the assessed value of the property which is \$14 million. In addition, the state's top 10 leases have annual rents that exceed \$500,000 per year.

Currently, the government spends approximately \$60 million a year on leases that support government agencies. With a budget that size we believe we need to improve our practices around how we evaluate and contract for those leases. Our legislation puts in several safeguards to accomplish these measures. First, it would require that any lease over \$500,000 must signed by the Secretary of DOA or the Governor. Second, DOA must complete a review of comparable properties within a 10 mile radius to determine that a proposed lease does not exceed market rates by more than 5 percent. Third, it would require a cost benefit analyses to be completed to determine whether a different property or the purchase of the potential leased property would be more cost effective than the proposed lease. Finally, the leases would be subject to a passive review by JFC before the lease can be signed.

This legislation is simply about requiring DOA to improve the due diligence in our government leasing process prior to locking down millions of taxpayers' dollars for extended periods of time. With these added measures Wisconsin citizens can be confident we are maximizing the use of government resources as we accommodate the facilities needs of state agencies.

## December 2010

<b>19</b>	<b>20</b>	<b>21</b>	<b>22</b> DOC lease signed by Doyle DOA Secretary	<b>23</b>	<b>24</b>	<b>25</b>
<b>26</b>	<b>27</b>	<b>28</b>	<b>29</b>	<b>30</b>	<b>31</b>	

## January 2011

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						<b>1</b>
<b>2</b>	<b>3</b> Gov. Walker takes office	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>

BH  
/A

L E A S E

THIS LEASE, made and entered into this 4th day of DECEMBER, 2000 by and between MORTENSON INVESTMENT GROUP, LLC (the "Lessor"), a Wisconsin limited liability company, whose address is 3113 West Beltline Highway, Madison, WI, and the STATE OF WISCONSIN, DEPARTMENT OF ADMINISTRATION (the "Lessee");

WITNESSETH, The parties hereto for the considerations hereinafter mentioned covenant and agree as follows:

1. PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor the following (the "Premises"):

The entire building comprised of approximately 235,772 BOMA Rentable square feet of office space, together with all appurtenances and access to common areas (but specifically excluding the Claims Building, 15 parking stalls and its surrounding area noted as "Reserved Area", as shown on Schedule II, attached, located at 3099 East Washington Avenue, in the City of Madison, Wisconsin (the "Building"), which Premises are further described on Schedule II.

2. USE OF PREMISES. Except as otherwise authorized in writing by Lessor, Lessee shall use the Premises as office space for the Department of Corrections Administrative Central Offices, or such other agency that may be designated by Lessee (collectively, the "Tenant).
3. TERM, RENEWALS. The lease term hereunder shall begin upon the date of lease execution (hereinafter written) and end on June 30th, 2011. The lease term may, at the option of the Lessee, be extended for two (2) successive five-year periods from and after July 1, 2011, subject to the availability of funds for the payment of rentals, upon the same terms and conditions herein specified, provided notice be given in writing to the Lessor at least three hundred sixty-five (365) days before the then current lease term would otherwise expire and provided further that this Lease remains in full force and effect and without Lessee default at the time Lessee provides notice of exercise of the option to extend and continuing through commencement of the option term at issue. Whenever the term "lease term," "term of this Lease," or "term" is referred to in this Lease, it shall refer to the initial term and any of two extension options as to which Lessee has properly exercised its option to extend.
4. ASSIGNMENT, SUBLETTING. The Lessee agrees that it shall not, during the term of this Lease, assign this Lease other than to another agency of the State of Wisconsin or another governmental entity created by State or Federal Statute, nor may it sublet any portion of the Premises, other than to another agency of the State of Wisconsin or another governmental entity created by statute. Notwithstanding the foregoing, the

Exhibit "A"  
 Third Lease Amendment - 3099 East Washington Avenue, Madison, Wisconsin  
 Mortenson Investment Group, LLC / 3099 EWA, LLC - State of Wisconsin

Rental Rate Schedule

Begin Date	End Date	Monthly Base Rent	Monthly Parking Charge	Monthly TI Loan Payment	Monthly TI Loan Payment	Total Monthly Payment
July 1, 2010 (current)	June 30, 2011	\$ 337,500.00	\$ 35,625.00	\$ 27,631.09	\$ 2,671.62	\$ 403,427.71

Lease Renewal #1 (elected by 2nd Amendment to Lease, dated September 14, 2005)

July 1, 2011	June 30, 2012	\$ 345,937.50	\$ 37,500.00	N/A	N/A	\$ 383,437.50
July 1, 2012	June 30, 2013	\$ 354,585.94	\$ 38,437.50	N/A	N/A	\$ 393,023.44
July 1, 2013	June 30, 2014	\$ 363,450.59	\$ 39,398.44	N/A	N/A	\$ 402,849.02
July 1, 2014	June 30, 2015	\$ 372,536.85	\$ 40,383.40	N/A	N/A	\$ 412,920.25
July 1, 2015	June 30, 2016	\$ 381,850.27	\$ 41,392.98	N/A	N/A	\$ 423,243.26

Lease Renewal #2 (elected by 3rd Amendment to Lease, dated December 22, 2010)

July 1, 2016	June 30, 2017	\$ 391,396.53	\$ 42,400.00	N/A	N/A	\$ 433,796.53
July 1, 2017	June 30, 2018	\$ 401,181.44	\$ 42,400.00	N/A	N/A	\$ 443,581.44
July 1, 2018	June 30, 2019	\$ 411,210.98	\$ 42,400.00	N/A	N/A	\$ 453,610.98
July 1, 2019	June 30, 2020	\$ 421,491.25	\$ 42,400.00	N/A	N/A	\$ 463,891.25
July 1, 2020	June 30, 2021	\$ 432,028.53	\$ 42,400.00	N/A	N/A	\$ 474,428.53

Landlord (Initials & Date):

*BA* 12/22/2010

Lessee (Initials & Date):

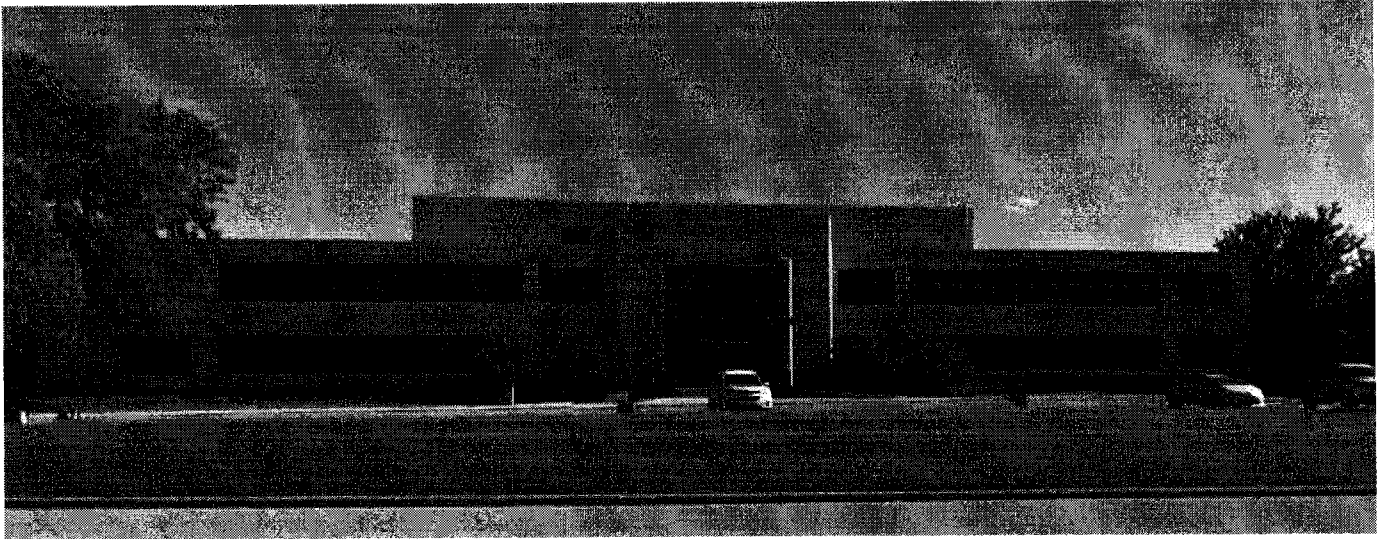
*MS* 12/23/2010

Year ending June 30th	Monthly Office Rent	Monthly Parking Rent	Monthly Total	Yearly Total
2002	\$250,000.00	\$22,500.00	\$272,500.00	\$3,270,000.00
2003	\$262,500.00	\$22,500.00	\$285,000.00	\$3,420,000.00
2004	\$275,000.00	\$24,375.00	\$299,375.00	\$3,592,500.00
2005	\$287,500.00	\$26,250.00	\$313,750.00	\$3,765,000.00
2006	\$295,833.00	\$28,128.00	\$323,961.00	\$3,887,532.00
2007	\$304,167.00	\$30,000.00	\$334,167.00	\$4,010,004.00
2008	\$312,500.00	\$31,875.00	\$344,375.00	\$4,132,500.00
2009	\$320,833.00	\$33,750.00	\$354,583.00	\$4,254,996.00
2010	\$329,167.00	\$35,625.00	\$364,792.00	\$4,377,504.00
2011	\$337,500.00	\$37,500.00	\$375,000.00	\$4,500,000.00
2012	\$345,937.50	\$37,500.00	\$383,437.50	\$4,601,250.00
2013	\$354,586.00	\$38,437.00	\$393,023.00	\$4,716,276.00
2014	\$363,450.66	\$39,398.00	\$402,848.66	\$4,834,183.92
2015	\$372,537.00	\$40,383.00	\$412,920.00	\$4,955,040.00
2016	\$381,850.41	\$41,392.00	\$423,242.41	\$5,078,908.92
2017	\$391,396.66	\$42,400.00	\$433,796.66	\$5,205,559.92
2018	\$401,181.66	\$42,400.00	\$443,581.66	\$5,322,979.92
2019	\$411,211.16	\$42,400.00	\$453,611.16	\$5,443,333.92
2020	\$421,491.50	\$42,400.00	\$463,891.50	\$5,566,698.00
2021	\$432,028.00	\$42,400.00	\$474,428.00	\$5,693,136.00
				\$90,627,402.60
<b>20 year cost to rent Dept. of Corrections HQ in Madison is \$90,627,402.60</b>				

Department of Corrections Madison HQ  
Rented from 2001 until 2021 for \$90,000,000

Usable space 238,000 Sq. Feet

Building built in 1951



Department of Revenue Madison HQ (Below)

State Bought for \$30,000,000 in 2000

Size 240,000 Sq. Feet

Building built in 2000

