



Executive Summary
Analysis of Government of Guam Leases
Report No. 22-04, October 2022

In almost seven years, GovGuam has continued to increase its annual cost for leasing commercial spaces (office and other) from \$12.5 million (M) for 493,097 sq. ft. in fiscal year (FY) 2015 to \$15.7M for 582,396 sq. ft. in FY 2022, a difference of \$3.2M for an additional 89,299 square feet (sq. ft.) of space. The continuous increase in GovGuam's lease costs shows the urgent need to invest in the construction of new government-owned buildings, which has been recommended since the OPA's first audit on leases issued seventeen years ago in 2005.

Majority of GovGuam's FY 2022 leases were for office space totaling \$15.2M in annual costs, while other commercial space totaled \$422 thousand (K) in annual costs. Specifically:

- The Executive Branch's annual cost for leasing commercial space was \$14.5M for 519,094 sq. ft. of space, with an average monthly cost of \$2.32 per sq. ft.
- The Legislative Branch's annual cost for leasing commercial space was \$384K for 21,422 sq. ft. of space, with an average monthly cost of \$1.49 per sq. ft.
- The Judicial Branch's annual cost for leasing commercial space was \$796K for 41,880 sq. ft. of space, with an average monthly cost of \$1.58 per sq. ft.

Table 1: Summary of FY 2022 Leases

Government Branches	No. of Entities	Number of Leases			Approximate Sq. Ft.			Total Lease Costs			Total Monthly Cost per Sq. Ft.		
		Office	Other	Total	Office	Other	Total	Office	Other	Total	Office	Other	Total
Executive													
Line ¹	27	51	5	56	421,694	12,113	433,807	\$11,941,986	\$143,108	\$12,085,094	\$2.36	\$0.98	\$2.32
Autonomous ^{2,3}	8	5	4	9	70,373	14,914	85,287	\$2,166,504	\$229,110	\$2,395,614	\$2.57	\$1.28	\$2.34
Executive Total	35	56	9	65	492,067	27,027	519,094	\$14,108,490	\$372,218	\$14,480,708	\$2.39	\$1.15	\$2.32
Legislative	13	13	-	13	21,422	-	21,422	\$384,000	\$ -	\$384,000	\$1.49	\$ -	\$1.49
Judicial	3	5	1	6	34,880	7,000	41,880	\$746,436	\$49,500	\$795,936	\$1.78	\$0.59	\$1.58
Grand Total	51	74	10	84	548,369	34,027	582,396	\$15,238,926	\$421,718	\$15,660,644	\$2.32	\$1.03	\$2.24

¹Excludes Office of the Governor

²Excludes GDOE and GVB

³Includes OAG and OPA

Guam Department of Education (GDOE) Pays the Highest Annual Costs for Office Space

GDOE pays the highest annual lease costs at \$3.2M for their 83,500 sq. ft. office; however, they were excluded from our overall GovGuam lease analysis because they have a lease-to-purchase agreement with an annual rental cost of \$10.1M for the Tiyan Campus, for which the construction of GDOE's Central Offices was included. The lease-to-purchase agreement is different from the typical lease agreements all other GovGuam agencies included in our analysis have.

Top Five GovGuam Agencies Each Pay Over \$1M in Annual Lease Costs

Department of Public Health and Social Services (DPHSS)

As shown in Table 2, DPHSS had the highest annual lease cost for office space at \$2.8M for the highest total square footage of 98,333 sq. ft. DPHSS also had the highest overall increase since FY 2015. DPHSS' annual cost increased by \$1.8M, or about 171%, and the square footage also increased by 50,012 sq. ft., or about 103%. The increase is largely attributed to DPHSS moving out of its Mangilao Main Facility in 2019 due to an electrical fire.

Guam Customs and Quarantine Agency (CQA)

While CQA reduced its total lease costs by \$162K from its FY 2015 total of \$2.7M, it still had the second-highest annual lease cost for office space at \$2.6M for a total square footage of 46,708 sq. ft. and pays the highest average cost per square footage of \$4.68 per square foot.

Office of Attorney General of Guam (OAG)

OAG had the third-highest total annual lease cost for office space at \$1.6M – an increase of \$55.8K resulting from additional space to accommodate investigator and white collar crime units. In addition, OAG pays the highest cost per square foot for its office lease compared to other GovGuam tenants at the ITC Building at \$3.00 per sq. ft, which has remained unchanged since FY 2015. By comparison, the Department of Administration (DOA) has a cost per square footage rate of \$1.95 per sq. ft., and the Guam Economic Development Authority (GEDA) has a cost per square footage rate of \$2.00 for much less total space in the ITC Building.

Department of Revenue and Taxation (DRT)

DRT had the fourth-highest annual lease cost for office space at \$1.4M, which resulted from an increase of \$391K for an additional 4,906 sq. ft. of space – the third-highest increase in annual lease costs among the top 10 agencies. DRT's 55,000 sq. ft. office space is also the largest contiguous leased space of all the GovGuam agencies. Although DRT has the largest amount of space for a single lease, their average price per sq. ft., \$2.08, is lower than the average of \$2.47 per sq. ft. paid for among the top 10 agencies.

Guam Police Department (GPD)

GPD had the fifth-highest annual lease cost for office space at \$1.2M and the second-highest increase in annual lease costs at \$700K (or 130%) from \$537K in FY 2015. The approximate sq. ft. increased by 30,000 sq. ft. (or 74%) from 40,480 sq. ft. in FY 2015 to 70,480 sq. ft. in FY 2022. The significant increases are primarily attributed to two additional leases, which have an aggregate annual lease cost and square footage of \$470K and 24,681 sq. ft., respectively.

Table 2: Top Ten Executive Branch Agencies with Highest Office Lease Costs

Government Agencies		FY 2022			FY 2015			VARIANCE		
		Total Annual Rental Cost	Approximate Sq. Ft.	Average Monthly Rental Cost per Sq. Ft.	Total Annual Rental Cost	Approximate Sq. Ft.	Average Monthly Rental Cost per Sq. Ft.	Total Annual Rental Cost	Approximate Sq. Ft.	Average Monthly Rental Cost per Sq. Ft.
No.	Agency									
1.	DPHSS	\$2,801,224	98,333	\$2.37	\$1,031,881	48,321	\$1.78	\$1,769,343	50,012	\$0.59
2.	CQA	\$2,624,963	46,708	\$4.68	\$2,787,045	54,347	\$4.27	\$(162,082)	(7,639)	\$0.41
3.	OAG	\$1,584,540	44,015	\$3.00	\$1,528,740	42,465	\$3.00	\$55,800	1,550	\$ -
4.	DRT	\$1,370,026	55,000	\$2.08	\$978,588	50,094	\$1.63	\$391,438	4,906	\$0.45
5.	GPD	\$1,236,611	70,480	\$1.46	\$536,765	40,480	\$1.11	\$699,846	30,000	\$0.35
6.	DOL	\$719,988	23,255	\$2.58	\$623,772	21,690	\$2.40	\$96,216	1,565	\$0.18
7.	DLM	\$692,664	23,560	\$2.45	\$774,062	27,449	\$2.35	\$(81,398)	(3,889)	\$0.10
8.	DOA	\$492,266	21,037	\$1.95	\$474,926	20,296	\$1.95	\$17,340	741	\$ -
9.	DISID	\$376,116	15,700	\$2.00	\$364,344	15,181	\$2.00	\$11,772	519	\$ -
10.	GEDA	\$348,672	14,528	\$2.00	\$248,928	8,607	\$2.41	\$99,744	5,921	\$(0.41)
Subtotal		\$12,247,069	412,616	\$2.47	\$9,349,051	328,930	\$2.29	\$2,898,019	83,686	\$2.89
Other Entities		\$1,861,422	79,451	\$1.95	\$1,358,100	69,685	\$1.62	\$503,321	9,767	\$0.33
Grand Total		\$14,108,491	492,067	\$2.39	\$10,707,151	398,615	\$2.24	\$3,401,340	93,453	\$0.15

Five Agencies Have Extension of Leases Beyond Original Term

During our review, we noted four agencies – Department of Integrated Services for Individuals with Disabilities (DISID), DOA, GPD, and Serve Guam Commission – whose leases have expired but are currently utilizing a hold-over clause to maintain tenancy for their offices. A hold-over clause in a commercial lease provides that if a tenant remains in possession of the leased premises after the expiration of the stated lease term, the tenant must pay rent to the landlord in an amount substantially in excess of the rental rate at the end of the term – typically as high as 150 to 200 percent. Similarly, GEDA's office lease at the ITC Building has been ongoing since 1991. This is due to a clause in the agreement which allows renewal of the lease every three years "as long as the tenant is not in default in the observance and performance of the covenants and conditions of the lease."

GovGuam Should Invest in Renovations and Repairs of Government-Owned Buildings

Starting with the Manuel F.L. Guerrero Building in Hagåtña, which previously housed DOA and GDOE's Administrative Offices, it has become a pattern of GovGuam automatically deciding to demolish or condemn a government-owned building instead of investing in renovations and repairs. The 70,000 sq. ft. building was demolished in 2015 as part of a revitalization effort for Hagåtña; however, the building at the time was deemed by DPW as "not structurally unsound" despite having some structural issues. The condemnation and demolition of the building resulted in annual costs totaling \$492K for DOA and \$3.2M for GDOE. Instead of condemning and demolishing, GovGuam could have invested in renovations and repairs to allow DOA, GDOE, or other GovGuam agencies to move back into government-owned property.

Secondly, DPHSS has stated that they have no plans to move back to the Mangilao Main Facility. Instead, Bill No. 296-36, introduced in April 2022, proposes the transfer of the DPHSS Mangilao Main Facility property to GCC to construct a nursing annex. As a result, DPHSS will continue to be the top GovGuam agency paying the highest annual lease costs of \$2.8M. Therefore, to reduce DPHSS' office lease costs, we recommend that GovGuam invest in the repair of the Mangilao Main Facility and for DPHSS to retain ownership and occupancy of the property.

Lastly, the current administration is spearheading plans for the construction of a new medical complex in Mangilao to house GMHA, DPHSS and GBHWC. As of the release of this audit report, the administration has not announced any concrete plans related to the use of the existing government-owned structures currently occupied by these entities.

Hagåtña Master Plan Continues To Be Stagnant

The Hagåtña Master Plan is a proposal from the Hagåtña Restoration and Redevelopment Authority (HRRA) that encompasses the vision for Hagåtña as the Capital City of Guam. The HRRA Implementation Plan – a component of the Master Plan – covers a portfolio of 30 projects, including a Government Civic Center Complex at the Plaza de España and a Land Resources Building near the Guam Preservation Trust Building. An update to the 2005 Master Plan Draft was completed and approved by the Governor in 2021; however, the Master Plan failed to pass into public law by the Legislature in April 2022. A revised Master Plan was submitted for approval to the Legislature in October 2022. Additional delays, such as the discovery of human remains at the proposed site for the Land Resources Building and the need for a flood mitigation study of the Plaza de España, have hindered the progress of these projects.

Conclusion and Recommendations

While several GovGuam agencies have made efforts to reduce lease costs since OPA's initial audit recommendation in 2005, GovGuam continues to increase lease expenses. A GovGuam building, as indicated in the Hagåtña Master Plan since 2005, is urgently needed. In addition, there continues to be no one agency that has oversight over all GovGuam leases. Until GovGuam and the HERRA can progress construction of the government buildings, we recommend the Governor appoint a central agency to be assigned to regulate and monitor the procurement of leases, as well as for prioritization of investment towards existing GovGuam buildings.



Benjamin J.F. Cruz
Public Auditor