

Memo

Date: 02/24/2025

To: Representative Paul Anderson, Chair, Agriculture Finance and Policy Committee
Members of the Agriculture Finance and Policy Committee

From: Commissioner Tamar Gronvall



RE: Fiscal Years 2026 and 2027 Lease Rates, Department of Agriculture

Lease rates for state-owned buildings under the custodial control or management of the Facilities Management Division (FMD) of the Department of Administration (Admin) are set by Admin and approved by Minnesota Management and Budget. Rates are set in the even year of each biennium so customer agencies may include them in their biennial budget planning.

Facilities Management Division Rate Setting Process

FMD Lease rates are comprised of operating expenses, bond interest, building depreciation, debt service, and retained earnings or working capital calculation.

- Operating Expenses include Salaries & Benefits, Utilities, Repairs and Maintenance, Statewide Indirect, Maintenance & Leasehold, Insurance, Supplies, and Other Expenses.
- Bond Interest is for construction projects funded with bonded dollars. FMD averages the interest for the debt service and pays it over 20 years.
- Building Depreciation is calculated on the estimated life of the building with most new buildings depreciated over 75 years. Building improvements are depreciated over the projected life of the project such as 30 years for a remodeling project and 20 years for a fire system replacement.
- Debt Service is for payment of the principal and interest on the bonds issued by the Saint Paul Port Authority for the Freeman building.
- Retained Earnings/Working Capital calculation. The federal government allows a retained earnings balance equal to 60 days' working capital.

History of MDA Square Feet and Lease Costs

Department of Agriculture Lease Costs from Fiscal Year (FY) 2022 through FY 2027

FY	Lease Period	Building	Sq. Ft.	Rate/ sf	Annual	Total Rent	Change in Rent	Change in Sq. Ft.
22	7/1 - 6/30	Freeman	94,408	\$33.40	\$3,153,227	\$5,466,866		
22	7/1 - 6/30	MDA Lab	55,885	\$41.40	\$2,313,639			
23	7/1 - 9/30	Freeman	94,408	\$37.90	\$894,516	\$5,735,905	\$269,039	0
23	10/1 - 6/30	Freeman	88,927	\$37.90	\$2,527,750			(5,481)
23	7/1 - 6/30	MDA Lab	55,885	\$41.40	\$2,313,639			0
24	7/1 - 6/30	Freeman	65,023	\$34.90	\$2,269,303	\$4,361,220	(\$1,374,685)	(23,904)
24	7/1 - 6/30	MDA Lab	54,477	\$38.40	\$2,091,917			(1,408)
25	7/1 - 6/30	Freeman	65,023	\$34.90	\$2,269,303	\$4,361,220	\$0	0
25	7/1 - 6/30	MDA Lab	54,477	\$38.40	\$2,091,917			0
26	7/1 - 6/30	Freeman	64,011	\$31.90	\$2,041,951	\$4,549,745	\$188,525	(1,012)
26	7/1 - 6/30	MDA Lab	54,399	\$46.10	\$2,507,794			(78)
27	7/1 - 6/30	Freeman	64,011	\$24.90	\$1,593,874	\$4,604,859	\$55,114	0
27	7/1 - 6/30	MDA Lab	54,399	\$55.35	\$3,010,985			0

MDA/MDH Laboratory Lease Rates FY26 and FY27

The FY26 and 27 per square foot lease rates for the MDA/MDH Laboratory will be:

- FY26 - \$46.10
- FY27 - \$55.35

These rates reflect 20% increases each year. The increases will be largely offset by the rate decrease at Freeman.

The rate increase covers:

- Annual increase of \$470,912 in building depreciation for \$20 million Lab Infrastructure Improvement project funded with state general obligation bonds (2020 Legislation). This project is being depreciated over 30 years.

- Annual increase of \$86,223 in building depreciation for \$1.5 million roof replacement is being depreciated over 17 years.
- Annual increase of \$301,187 in bond interest for \$20 million Lab infrastructure improvement project.
- Average annual increase of \$350,000 in projected utility costs.
 - The space in the Lab requires a 100% intake of outside air in the HVAC system to remove potentially hazardous fumes and chemicals. This compares to about 10% outside air intake during winter months and 20% outside air in summer months in all other non-lab, office buildings on the Capitol Complex.
- \$870,000 in one-time expense to supplement the Lab Infrastructure Improvement project.

Freeman Building Lease Rate FY26 and FY27

The FY26 and 27 per square foot lease rates for the Freeman Building will be:

- FY26 - \$31.90
- FY27 - \$24.90

These rates reflect a 9% decrease in FY26 and a 22% decrease in FY27.

In December 2005, Admin began a long-term lease-purchase agreement with the Saint Paul Port Authority for the Freeman Building. FMD collects money through the Freeman lease rates and makes payments for the debt service bond principal and interest. The terms of this agreement will be fulfilled in December 2025 (FY26) when the final payment will be made and the state will purchase the building for \$1.

The lease rate at the Freeman Building is decreasing because the debt service for the original building construction will be paid in full in FY26.