LEGISLATIVE RESEARCH COMMISSION

STATE OFFICE BUILDING CONSTRUCTION POLICY

REPORT TO THE
1983 GENERAL ASSEMBLY
OF NORTH CAROLINA

LEGISLATIVE RESEARCH COMMISSION

STATE OFFICE BUILDING CONSTRUCTION POLICY

REPORT TO THE
1983 GENERAL ASSEMBLY
OF NORTH CAROLINA

A LIMITED NUMBER OF COPIES OF THIS REPORT IS AVAILABLE FOR DISTRIBUTION THROUGH THE LEGISLATIVE LIBRARY.

ROOM 2126, 2226
STATE LEGISLATIVE BUILDING
RALEIGH, NC 27611
TELEPHONE: (919) 733-7778

OR

ROOM 500
LEGISLATIVE OFFICE BUILDING
RALEIGH, NC 27611
TELEPHONE: (919) 733-9390

STATE OF NORTH CAROLINA

LEGISLATIVE RESEARCH COMMISSION

STATE LEGISLATIVE BUILDING

RALEIGH 27611

January 12, 1983

TO THE MEMBERS OF THE 1983 GENERAL ASSEMBLY:

The Legislative Research Commission herewith reports to the 1983 General Assembly on the matter of State Office Building Construction Policy. The report is made pursuant to Resolution 61 of the 1981 General Assembly.

This report was prepared by the Legislative Research Commission's Committee on State Office Building Construction Policy/Public Facilities Design, Construction and Inspection and is transmitted by the Legislative Research Commission for your consideration.

Respectfully submitted,

Liston B Ramsey

Liston B. Ramsey

W. Craig Lawing

W. Craig Lawing

Cochairmen
Legislative Research Commission

TABLE OF CONTENTS

INTRODUCTION

The Legislative Research Commission, authorized by Article 6B of Chapter 120 of the North Carolina General Statutes (G.S.), is a general-purpose legislative study group. (Appendix A contains a list of the membership of the Legislative Research Commission.)

Among the Commission's duties is to make or cause to be made, upon the direction of the Cochairmen of the Commission,

> "such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner." /G.S. 120-30.17(1)/

The 1981 General Assembly authorized, in Resolution 61 (House Joint Resolution 1292), the Legislative Research Commission to study the "/d/evelopment of a policy on State office building construction" pursuant to House Joint Resolution 1090, and to "/c/ontinue the study of the design, construction and inspection of public facilities" pursuant to Senate Joint Resolution 143. The Commission directed the Committee on State Office Building Construction Policy/Public Facility Design, Construction and Inspection to study both of these topics. (Appendix B contains a list of the Committee's membership.) This report covers the Committee's treatment of <u>one</u> of these two topics: State office building construction policy.

The General Assembly authorized the study of State office building construction policy because: 1) State agencies lease a great amount of office space throughout North Carolina; 2) the State has not developed a policy for the construction of State office buildings; and 3) guidelines have not been established for determining when it would be more cost effective to rent office space rather than construct new buildings. (See House Joint Resolution 1090 in Appendix C.)

SUMMARY OF COMMITTEE
PROCEEDINGS REGARDING OFFICE BUILDING
CONSTRUCTION POLICY

The Committee met three times to discuss the issues involved in leasing-versus-construction of State office space (January 8, 1982; March 25, 1982; and May 4, 1982; more details on the Committee proceedings can be found in the minutes,which are on file in the Legislative Library.). The Committee worked to develop criteria and guidelines for determining whether, in a given situation, the State should rent or build additional office space when and if the need arises. To develop the criteria, the Committee exploited the expertise of its members; representatives of the Department of Administration, State Budget Office, and the University of North Carolina Board of Governors; Legislative Fiscal Research staff; Committee counsel; and the Committee examined the documented findings of other states treating the question of leasing-versus-construction.

The Committee elicited information on: 1) the amount of building space the State currently owns and the amount of space it leases from non-State sources; 2) the proposed new State office buildings in Charlotte and Fayetteville; 3) the potential impact of State construction on local economies; 4) the factors that should be considered in decisions to rent or own State office space; 5) leasing and construction decision-making at the University of North Carolina; 6) the federal approach to the leasing-versus-construction question; 7) the findings of other states regarding leasing-versus-construction; and 8) the best means of ensuring that Committee-developed criteria is carefully considered before funds are appropriated for future capital improvements.

1) Mr. J. K. Sherron, Deputy Secretary of Governmental Operations for the Department of Administration, told the Committee that the State of North Carolina owns 443,280 acres

of land and 10,596 buildings for a total of 64,361,282 square feet of space. This includes dormitories, warehouses, and other miscellaneous types of facilities.

Mr. Sherron also distributed a list (Appendix D) of the cities in which the State leases office space, the number of square feet in each city, and the number of State employees working in these facilities by city. The State leases 1,737,562 square feet of office space, which is occupied by 7,280 State employees in 109 cities.

When questioned about the 102,357 square feet of space being leased in Chapel Hill, Mr. Sherron responded that 90,238 square feet consist of University space, 10,809 square feet serve as Memorial Hospital space, and the remaining amount is used for miscellaneous State offices.

2) Mr. Sherron distributed handouts on the Coddington Building in Charlotte and the proposed new building in Fayetteville (Appendices E and F).

The General Assembly has appropriated $4.1 million for the acquisition and renovation of the Coddington Building. The purchase and renovation of the building is contingent on the City of Charlotte's agreement to make available to the State adjacent property for one dollar per year for parking. The building should be ready for occupancy by July, 1983.

Mr. Robert Powell of the State Budget Office said that plans to build an office building in Fayetteville are at a standstill. The Department of Administration State Property Division prepared a feasibility study on the Fayetteville building. Mr. Powell said that between $5 million and $6 million are needed for purchase of the land and construction of the building. The General Assembly has appropriated only about one-half million dollars for the building, which is insufficient to proceed with design and construction.

Mr. Sherron was questioned about the Employment Security Commission's use of certain funds to house its staff. He responded that about twenty years ago Congress enacted a law providing that a percentage of receipts collected by the Commission and retained by the State could be used to purchase or construct office space. In 1979, North Carolina had not used any of its funds which had accumulated in the amount of $2.5 million. Congress passed another law providing that if these funds were not utilized, they would revert to the federal government. The State then used these receipts to purchase and renovate the former Rex Hospital building in Raleigh to allow all of the Commission's offices to be located in one place.

3) Mr. Jim Newlin of the Legislative Fiscal Research Division spoke on the question of the potential effects of construction of a State office building on a local economy. He noted that it is frequently difficult to determine such potential effects as tax losses and the impact on the private office space market. He said that, to the extent they can be ascertained, potential effects should be considered on a case-by-case basis. If the local office rental market is weak, construction of a State building could lower property values as well as remove the State-owned property from the tax base. On the other hand, a new State building in a depressed area could spur additional investment in the surrounding area and thereby increase the tax base. Projects consisting of substantial construction would have a positive effect on the local economy during the construction period. Mr. Newlin opined that State acquisition of the Coddington Building in Charlotte probably would have little impact on city revenues because the building was not previously being used, but that under different circumstances the impact could be substantial.

4) The Committee asked Department of Administration, State Budget Office, and Fiscal Research Division staff each to prepare and provide the Committee with a list of factors that should be considered in the decision as to whether State office facilities should be leased or owned in a given situation.

Mr. Newlin of the Fiscal Research Division distributed handouts (Appendices G and H) outlining factors that should be considered in feasibility studies on the lease-versus-build question and setting forth perceived problems with the current capital improvement decision-making process. Department of Administration and State Budget Office representatives suggested that feasibility studies be conducted before funds are appropriated for the acquisition, construction, or renovation of any building, but would not indicate what factors should be considered in such studies. Mr. Powell of the State Budget Office said that capital improvements were not generally included in the Governor's budget recommendations unless the Department of Administration's State Property Division had studied the feasibility of such improvements.

5) Committee members questioned Mr. R. D. McMillan of the University of North Carolina Board of Governors about the decision-making process with respect to University facilities. Mr. McMillan told the Committee that the University works very closely with the Department of Administration's State Construction Division on cost estimates, but that the Board of Governors determines the feasibility of new construction. Also, the University is allowed to retain 70% of its receipts for overhead operations, but the Advisory Budget Commission must approve the method by which those funds are expended.

6) Committee members wished to know about the federal approach to leasing-versus-construction decisions. Senator Walter Cockerham noted that the federal government in recent years has placed greater emphasis on leasing as opposed to construction or acquisition. He stated that the maintenance costs of federally-owned property generally exceed those of public facilities leased from private sources. He added that the federal government no longer provides parking for its employees.

In response to further Committee questions concerning the federal approach, Committee counsel said that Congress must appropriate funds for building, purchasing, or leasing of federal office space. Federal law (40 U.S. Code 606; see Appendix I) provides that the Committee on Public Works in both the Senate and House of Representatives must approve by resolution any appropriation either to construct, alter, or acquire any building involving an expenditure in excess of $500,000 or to lease any space at an average annual rental of more than $500,000. The General Services Administration must transmit to Congress a prospectus containing (but not limited to) certain information specified in the aforementioned statute.

Committee counsel contacted the General Services Administration which administers federal construction and leasing. He was told that although federal studies have shown construction to be generally more economical than leasing in the long run, leasing is nevertheless the primary means of obtaining office space because of the difficulty in receiving funds for capital projects from Congress. This assertion is supported in a December, 1981, Comptroller General Report to Congress (Appendix J contains the relevant excerpt; the full report is on file with the Legislative General Research Division). The report provides that the total project cost for construction must be recorded in the first year, which has a great impact on the year's budget. Total rent payments are not recorded in the first year but rather are spread over the lease period. The report states: "In times of unusually large demands on the budget, construction projects, because of their impact are the first to be eliminated." Although "the cumulative cash outlays for leasing over the long term are greater than for a construction project" the General Services Administration "has relied on leasing as the only practical method available to meet space demands." Expenditures for federal leased space increased from $364 million in 1975 to an estimated $722 million in 1982.

Concerned about this increase, the General Services Administration supported legislation in 1980 and 1981 which would provide for or emphasize more construction and a reduction in leasing.

Committee counsel also received a 1972 report from the Director of the U.S. Office of Management and Budget to the heads of Executive Departments, which sets forth a comparative cost analysis for decisions to lease or purchase real property for public use. This report is on file with the Legislative General Research Division.

7) Committee members also directed Committee counsel to solicit information from other states concerning their approach to leasing-versus-construction decisions. The Committee was told that the great majority of states had no general policy with respect to leasing-versus-construction and had developed no guidelines or criteria which legislators must consider when appropriating funds for capital improvements.

Committee counsel did receive eight reports from seven states (Connecticut, Florida, Louisiana, Maryland, Massachusetts, New Jersey, and Wisconsin) which he summarized to the Committee (See Appendix K for the summary; the complete reports are on file with the Legislative General Research Division). Most of the reports contained a cost analysis indicating that construction is more economical to the state over a period of time exceeding fifteen years. Several reports stated that a cost analysis should not be the sole criterium in determining whether office space should be built or rented and discussed other criteria such as the potential impact on local economies, projected population growth, availability of funds, anticipated duration of programs to be housed in the facility, convenience and service-delivery to the public, and quality of available leasing space. One report (from Massachusetts) analyzed alternatives to public construction and leasing such as lease-purchasing and private construction and sale.

8) The Committee members discussed the criteria and factors that should be considered whenever the construction-versus-leasing decision is made and selected the criteria deemed most essential in making this determination. (See the Committee Recommendations on page 9 of this report.) Recognizing that the General Assembly makes the ultimate decisions as to the means of supplying State government with additional office space through the appropriations process, the Committee recommended amending the General Statutes and the Senate and House Rules to require that the designated criteria be included in feasibility studies that must accompany legislation appropriating funds for capital improvements and for leasing space for State use.

The Committee finds:

1) The decision to construct, alter, acquire, or lease buildings for State use should be based on the careful consideration of certain designated factors.

2) This decision is most appropriately made on a case-by-case basis because the emphasis that should be given to individual factors can vary in each instance.

3) The General Assembly makes the final decisions regarding State construction, alterations, acquisition, and leasing.

4) Currently, the General Assembly may consider and ratify bills appropriating funds to construct, alter, acquire or lease buildings for State use absent feasibility studies for its consideration on the advisability of such construction, alteration, acquisition, or leasing.

The Committee recommends:

1) That the 1983 Permanent Rules of the North Carolina Senate include a rule to read:

> "Rule 42.3. Feasibility studies. -- (a) Every bill, amendment to a bill, or committee substitute for a bill that would appropriate one hundred thousand dollars ($100,000) or more for the construction, alteration, or acquisition of any building shall have attached to it at the time of its consideration by any appropriations committee a feasibility study requested and prepared pursuant to G.S. 143-341.1.
>
> (b) When any appropriations committee considers an amendment to or a proposed committee substitute for such bill that would substantially change the nature, size, and location of the building or increase the amount of the appropriation for the building by at least ten percent (10%), the amendment or proposed committee substitute shall have attached to it another such feasibility study. Every feasibility study required by this Rule shall be attached to the jacket of the bill when reported by the committee."

2) That the 1983 Permanent Rules of the North Carolina House of Representatives include a rule to read:

> "Rule 38.1. Feasibility studies. -- (a) Every bill, amendment to a bill, or committee substitute for

a bill that would appropriate one hundred thousand dollars ($100,000) or more for the construction, alteration, or acquisition of any building shall have attached to it at the time of its consideration by any appropriations committee a feasibility study requested and prepared pursuant to G.S. 143-341.1.

(b) When any appropriations committee considers an amendment to or a proposed committee substitute for such bill that would substantially change the nature, size, and location of the building or increase the amount of the appropriation for the building by at least ten percent (10%), the amendment or proposed committee substitute shall have attached to it another such feasibility study. Every feasibility study required by this Rule shall be attached to the jacket of the bill when reported by the committee."

3) That Article 36 of the General Statutes Chapter 143 be amended by adding a section to read:

"§143-341.1. Feasibility studies for members of the General Assembly. -- Upon the request of a member of the General Assembly who is the sponsor of, or upon the request of the chairman of a General Assembly appropriations committee that is considering, legislation or an amendment thereto that would appropriate at least one hundred thousand dollars ($100,000) for the construction, alteration, or acquisition of a building, the Department shall provide a feasibility study that shall include without limitation to an analysis of the following:

(1) a comprehensive plan for providing space for all State employees working in the county, if State employees would be located in the proposed building;

(2) a comparison of the projected costs of leasing versus owning space to be provided in the proposed building, spread out over 10, 20, and 40 years;

(3) the projected population and State government employment growth in the county in which the proposed building is to be located;

(4) the duration of State programs to be located in the proposed building;

(5) the convenience and service delivery to the public of the proposed building;

(6) a comparison of projected effects on the tax base and economy of the county of leasing versus owning equivalent space in the building.

The Department shall prepare the feasibility study as promptly as possible, but shall transmit the study to the requesting legislator not later than two weeks after the request is made. For the purpose of this section, the term 'county' refers to a geographic location including the entire area within the boundaries of a county and not separate from the areas within local government jurisdictions in the county."

4) That G.S. 143-11 entitled Survey of departments be amended by adding to the second paragraph a new subsection (5) to read:

"(5) A feasibility study for each county, as defined in G.S. 143-341.1, in which the State leases over sixty thousand (60,000) square feet of space. Each feasibility study shall be prepared by the Department of Administration, shall justify the use of leasing to house State employees located in the leased space in the county and shall include without limitation to an analysis of the following:

(a) a comprehensive plan for providing space for all State agencies in the county;

(b) a statement of rents and other costs of housing State agencies in the leased space in the county;

(c) a comparison of the projected costs of leasing versus owning equivalent space in the county spread out over 10, 20, and 40 years;

(d) the projected growth of population and State government employment in the county;

(e) the duration of State programs to be housed in the leased space in the county;

(f) the convenience and service delivery to the public of the leased space in the county;

(g) a comparison of projected effects on the tax base and economy of the county of leasing versus owning equivalent space."

SESSION 19 83

INTRODUCED BY:

Short Title: Feasibility Studies for Legislature

Referred to:

A BILL TO BE ENTITLED

AN ACT TO AMEND THE GENERAL STATUTES TO PROVIDE THAT THE GENERAL ASSEMBLY RECEIVE FEASIBILITY STUDIES ON PUBLIC CONSTRUCTION, ACQUISITION, AND LEASING.

The General Assembly of North Carolina enacts:

Section 1. Article 36 of General Statutes Chapter 143 is amended by adding a section to read:

"§143-341.1. Feasibility studies for members of the General Assembly. -- Upon the request of a member of the General Assembly who is the sponsor of, or upon the request of the chairman of a General Assembly appropriations committee that is considering, legislation or an amendment thereto that would appropriate at least one hundred thousand dollars ($100,000) for the construction, alteration, or acquisition of a building, the Department shall provide a feasibility study that shall include without limitation to an analysis of the following:

(1) a comprehensive plan for providing space for all State employees working in the county, if State employees would be located in the proposed building;

(2) a comparison of the projected costs of leasing versus owning space to be provided in the proposed building, spread out over 10, 20,

and 40 years;

(3) the projected population and State government employment growth in the county in which the proposed building is to be located;

(4) the duration of State programs to be located in the proposed building;

(5) the convenience and service delivery to the public of the proposed building;

(6) a comparison of projected effects on the tax base and economy of the county of leasing versus owning equivalent space in the building.

The Department shall prepare the feasibility study as promptly as possible, but shall transmit the study to the requesting legislator not later than two weeks after the request is made. For the purpose of this section, the term 'county' means a geographic location including the entire area within the boundaries of a county and not separate from the areas within local government jurisdictions in the county."

Sec. 2. G.S. 143-11 is amended by adding to the second paragraph a new subsection (5) to read:

"(5) A feasibility study for each county, as defined in G.S. 143-341.1, in which the State leases over sixty thousand (60,000) square feet of space. Each feasibility study shall be prepared by the Department of Administration, shall justify the use of leasing to house State employees located in the leased space in the county and shall include without limitation to an analysis of the following:

(a) a comprehensive plan for providing space for all State agencies in the county;

(b) a statement of rents and other costs of housing State agencies in the leased space in the county.

(c) a comparison of the projected costs of leasing versus owning equivalent space in the county spread out over 10, 20, and 40 years;

(d) the projected growth of population and State government employment in the county;

(e) the duration of State programs to be housed in the leased space in the county;

(f) the convenience and service delivery to the public of the leased space in the county;

(g) a comparison of projected effects on the tax base and economy of the county of leasing versus owning equivalent space."

Sec. 3. This act shall become effective upon ratification.

LEGISLATIVE RESEARCH COMMISSION

1981 - 1982

MEMBERSHIP LIST

	Business Address	Telephone No.
Speaker Liston B. Ramsey Co-Chairman	Walnut Creek Road Marshall, N. C. 28753	(704) 649-3961
Sen. W. Craig Lawing Co-Chairman	5521 Belhaven Blvd. Charlotte, N. C. 28216	(704) 399-6372
Rep. Chris S. Barker, Jr.	Post Office Box 988 New Bern, N. C. 28560	(919) 633-1333
Sen. Henson P. Barnes	Post Office Box 1582 Goldsboro, N. C. 27530	(919) 735-6420
Rep. John T. Church	Post Office Box 947 Henderson, N. C. 27536	(919) 492-8111
Rep. Gordon Greenwood	Box 487 Black Mountain, N. C. 28711	(704) 669-7961
Rep. John J. Hunt	Peachtree Road Lattimore, N. C. 28089	(704) 434-6853
Sen. Carolyn Mathis	Post Office Box 30035 Charlotte, N. C. 28230	(704) 379-7131
Sen. William D. Mills	Post Office Box 1238 Swansboro, N. C. 28584	(919) 326-2177
Rep. Lura S. Tally	3100 Tallywood Drive Fayetteville, N. C. 28303	(919) 484-4868
Sen. Russell Walker	Post Office Box 1831 Asheboro, N. C. 27203	(919) 625-6177
Sen. Robert W. Wynne	Post Office Box 12195 Raleigh, N. C. 27605	(919) 755-1480

MEMBERSHIP LIST
COMMITTEE ON
STATE OFFICE BUILDING CONSTRUCTION POLICY/PUBLIC FACILITIES,
DESIGN, CONSTRUCTION & INSPECTION

Senator Wm. D. Mills (LRC Member)
Box 1238
Swansboro, N. C. 28584
Business Phone: 919/326-2177
Home Phone: 919/743-5226

Senate Members:

Senator Conrad R. Duncan, Co-Ch.
Route 1, Box 282
Stoneville, N. C. 27048
Business Phone: 919/623-9166
Home Phone: 919/627-1326

Senator W. Craig Lawing
5521 Belhaven Boulevard
Charlotte, N. C. 28216
Business Phone: 704/399-6372
Home Phone: 704/399-3260

Senator Robert B. Jordan, III
P. O. Box 98
Mt. Gilead, N. C. 27306
Business Phone: 919/439-6121
Home Phone: 919/439-5900

Senator Kenneth C. Royall, Jr.
P. O. Box 8766
Forest Hills Station
Durham, N. C. 27707
Business Phone: 919/489-9191
Home Phone: 919/489-2129

Senator Walter C. Cockerham
1108 Grecade Street
Greensboro, N. C. 27408
Business Phone: 919-273-4485
Home Phone: 919/288-5844

House Members:

Rep. Edd Nye, Co-Ch.
Courthouse Drive
Elizabethtown, N. C. 28337
Business Phone: 919/862-3679
Home Phone: 919/862-2420

Rep. Ralph P. Edwards
P. O. Box 16126
Greensboro, N. C. 27406
Business Phone: 919/854-2750
Home Phone: 919/274-9093

Rep. John B. Gillam, III
P. O. Box 550
Windsor, N. C. 27983
Business Phone: 919/794-3615
Home Phone: 919/794-3204

Rep. Daniel T. Lilley
P. O. Box 824
Kinston, N. C. 28501
Business Phone: 919/523-4309
Home Phone: 919/523-4524

Rep. Horace Locklear
The Professional Building
Lumberton, N. C. 28358
Business Phone: 919/738-7126
Home Phone: 919/738-7693

Staff:

Mr. Dennis Bryan, Staff Attorney)
Mrs. Susan Frost, Staff Attorney) Phone: 919/733-2578

Mrs. Jane Holliday - Phone: 919/733-5875 - Committee Clerk

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1981

H 2

HOUSE JOINT RESOLUTION 1090
Second Edition Engrossed 5/28/81

Sponsors: Representative Nye.

Referred to: Rules.

May 15, 1981

A JOINT RESOLUTION DIRECTING THE LEGISLATIVE RESEARCH COMMISSION TO STUDY AND DEVELOP A POLICY ON THE CONSTRUCTION OF STATE OFFICE BUILDINGS.

Whereas, the State leases many office buildings throughout North Carolina; and

Whereas, the State of North Carolina has not developed a policy for the construction of State office buildings; and

Whereas, guidelines have not been established covering when it would be more cost effective to rent office space rather than construct new buildings;

Now, therefore, be it resolved by the House of Representatives, the Senate concurring:

Section 1. The Legislative Research Commission [H-~~shall~~][H-may] study the necessity for, and if necessary, develop a policy for the construction of State office buildings throughout North Carolina.

Sec. 2. The Commission may make an interim report to the 1982 Session of the General Assembly and shall make a final report to the 1983 Session of the General Assembly.

Sec. 3. This resolution is effective upon ratification.

Y	SQ. FT.	EMPLOYEES
oskie	1,335	4
emarle	14,546	76
ne'boro	8,132	21
evilk	60,718	276
kersville	313	1
aufort	5,274	10
lton	1,533	6
one	8,692	41
yson City	412	2
rgaw	1,784	6
rlington	10,008	56
rnsville	312	1
nton	7,600	37
rrboro	17,037	62
rthage	14,000	29
apel Hill	102,357	724
arlotte	73,950	371
inton	6,820	7
olumbus	800	1
oncord	11,443	46
anbury	700	1
obson	216	1
unn	3,376	5
urham	21,229	111
den	1,875	4
denton	5,174	27
lizabeth City	13,365	64
lizabethtown	859	3
ssex	600	2
aison	575	25 pt
ayetteville	66,194	367
orest City	1,255	35
ranklin	5,165	22
astonia	8,685	31
Golds[illegible]o	7,141	39
Graham	1,120	4
Greensboro	59,344	313
Greenville	75,200	317

CITY	SQ. FT.	EMPLOYEES
Harrisburg	1,329	18
Henderson	5,436	45
Hendersonville	5,524	30
Hickory	20,254	98
High Point	12,348	58
Hillsborough	518	3
Huntersville	9,336	33
Jacksonville	14,404	79
Jefferson	1,500	2
Kannapolis	1,656	19
Kenansville	2,605	13
Kinston	14,150	55
Knightdale	13,300	27
Lauringburg	5,664	86
Lenoir	4,416	23
Lexington	9,605	53
Lillington	333	2
Lincolnton	5,907	24
Louisburg	1,561	7
Lumberton	13,625	~~2~~ 70
Manteo	573	3
Marion	3,750	19
Mayodan	691	5
Monroe	3,749	13
Mooresville	16,200	40
Morehead City	4,136	20
Morganton	14,672	66
Mount Olive	3,600	19
Mt. Airy	6,390	30
Murphy	6,161	31
New Bern	14,583	51
Newland	380	3
Newton	4,161	15
N. Wilkesboro	18,058	67
Oxford	478	4
Plymouth	150	1
Raeford	285	1
Raleigh	631,757	1821

CITY	SQ. FT.	EMPLO
Reidsville	3,689	21
Roanoke Rapids	5,282	31
Rockingham	7,899	43
Rocky Mount	15,935	78
Rutherfordton	670	2
Salisbury	8,089	37
Sanford	6,555	31
Shelby	13,220	60
Smithfield	1,695	9
Spruce Pine	2,296	8
Statesville	8,705	38
Swannanoa	1,800	4
Sylva	1,580	10
Tarboro	499	3
Taylorsville	570	5
Thomasville	1,460	25
Wadesboro	4,574	16
Walnut	440	1
Warrenton	344	3
Washington	15,609	72
Waynesville	4,632	27
Weldon	196	6
Wentworth	150	2
Whiteville	740	6
Wilkesboro	3,240	20
Williamston	16,800	58
Wilmington	39,943	183
Wilson	9,365	42
Windsor	867	5
Winston-Salem	65,714	326
Yadkinville	308	1
New York, N.Y.	417	1
Washington, DC	1,895	4
TOTALS	1,737,562	[illegible]

CODDINGTON BUILDING - CHARLOTTE

Agencies Scheduled for Coddington Bldg.	Net Sq. Ft.	# Employees
Veterans Affairs	1,700	6
Agriculture	500	2
Employment Security Commission	20,800	85
Alcohol Law Enforcement	1,500	10
DHR-Services for the Blind	2,500	15
Title IV Division	4,700	34
Youth Involvement	324	2
Vocational Rehabilitation	1,700	7
Labor	450	2
Revenue	6,600	47
Department of Transportation-R/W	2,600	15
Resident Engineer	5,000	22
General Use - Conference	1,000	N/A
Snack Bar	2,100	N/A
Mail Room	600	N/A
Maintenance	600	N/A
Rest Rooms	2,400	N/A
Totals	55,074	247
Net Building Area	76,688	
Gross Building Area	100,000	

Agencies to Remain in Leased Space	Net Sq. Ft.	# Employees	Explanation
DHR-Voc. Rehabilitation	1,360	8	Requires client neighborhood location
Advocacy on Disabilities	240		Phased out
Div. of Prisons (2 loc.)	6,667	21	Requires isolation
Civil Air Patrol	5,200	3	Requires airport location
DOT-Location & Survey	800	11	Phased out
Geotechnical	780	10	Assigned to DOT facilit
Regional Lab	538	10	Requires indust. loc.
Motor Veh. Registration	6,500	29	Requires truck parking
Motor Veh. Licensing	5,500	8	Novice drivers
	27,585	100	

PROPOSED OFFICE BUILDING - FAYETTEVILLE

Agencies Scheduled for Building	Net Sq. Ft.	# Employees
DNRCD - Regional Office	6,500	36
Revenue - Collections & Audit	3,500	24
Justice - SBI	1,700	16
Transportation - ROW	2,700	12
DCC&PS - Alcohol Law Enforcement	1,600	9
Administration - Veterans Affairs	1,700	6
Commerce - Employment Security Comm.	12,500	70
Correction - Regional Office	3,800	26
Human Resources - Regional Office	22,000	190
State Auditor - Regional Office	500	8
General Use - Storage	1,200	N/A
Snack Bar	1,800	N/A
Training Fac.	800	N/A
Conf. Rooms	800	N/A
Public Waiting Areas	3,000	N/A
Rest Rooms	1,200	N/A
Circulation	3,000	N/A
Totals	68,300	397
Net Building Area	68,300	
Gross Building Area	86,300	

Agencies to Remain in Leased Space	Net Sq. Ft.	#Employees	Explanation
Comm. Indian Affairs	775	1	Adjoin Cumber. Co. Asso. for Indian People
Council on Women	142	1	Discontinued
DHR-Voc. Rehab.	3,757	21	Must be adjacent to sha facility and staff
DHR-Health Svcs.-DEC	5,420	20	Must be adjacent to Hos and shared staff
DOT-Resident Engineer	2,000	18	Moved to DOT owned faci
DOT-Drivers License	3,080	9	Novice Drivers
	11,417	70	

Fiscal Research Division
March 24, 1982

"What To Look For In A Feasibility Study."
Factors to Consider in Lease or Build Decisions for State Office Space

I. Decision Process

A. Objectives

The purpose(s) of a proposed building should be made clear so alternatives can be evaluated based on the objectives.

1. Save money
2. Downtown revitalization
3. Investment of state resources
4. Special needs

B. Alternatives

1. Construct a new building
2. Lease from private sector or other governmental unit
3. Locate employees elsewhere
4. Employees work out of homes

C. Compare costs and effectiveness of each alternative in meeting objectives.

II. Cost Comparisons

A. The basic decision model for making this comparison is an investment analysis model, similar to those used by private investors, with modifications to account for unique factors in public decisions.

B. Investment analysis will provide information, but someone still must make a decision based on values that cannot be measured and on conflicting objectives which cannot always be directly compared.

C. Method

1. The most widely used investment analysis method is the net present value comparison of each alternative. Basically, present value allows one to compare the value of different costs and benefits over various lengths of time by boiling these streams of numbers down to one number which represents what the investment is worth today.

2. This method uses a discount rate to provide the "time value of money." This is based on the assumption that $100 today is worth more than

$100 two years from now because one could invest the $100 today and have more than $100 in two years. The alternative uses of money ("opportunity costs") and their prospective rates of return are used as discount rates in order to arrive at the present value of costs or benefits in future years.

The mathematical formula is:

$$PV = \frac{NB_1}{(1+i)} + \frac{NB_2}{(1+i)^2} \; .... \; \frac{NB_N}{(1+2)^N}$$

Where
PV = Present Value;
NB = Net benefits;
i = Discount rate, or alternative rate of return;
N = Length of time for comparison.

3. The State Property Office, in its feasibility studies, uses this method to some degree. In some studies, however, discounting has been ignored.

III. Recommendations for Feasibility Studies

A. The present value method of comparing alternatives should be used, including the discounting future costs and benefits. The State does have alternative uses for funds:

1. Treasurer's Investments;
2. Other programs which provide benefits;
3. Tax reductions which return the funds to the private sector.

B. The analysis should include a depreciation factor for public buildings.

C. Obviously, the impact of the income tax system on the alternatives for the state should be ignored.

D. Whether or not to include inflation factors must depend on the current economic climate. However, inflation rates applied to different alternatives should be the same.

E. Costs of alternatives should be based on the proposed method of financing. For example, an appropriation request is a cost in year 1; bond financing is spread over the life of the bonds.

F. Factors Unique to State Government Decisions

1. Impact on the Private Rental Market
If the state leases a substantial amount of space in an area, the sudden opening of large amounts

of space may affect local real estate values, depending on local economic conditions.

2. Location
   Does the state have a policy to locate in downtown areas; to preserve historic structures, etc.? If so, these policies may affect the cost of the project and should be factored in.

3. State Demand for Office Space

   a. Are the programs now leasing space growing? What are the projections for state employment in the local office market?

   b. Are the programs ongoing, or are they special projects funded with federal grants?

   c. Are the leasing agencies funded with federal funds or supported from licensing fees? If federal funds, the long-term projection for revenues is not good, and the risk of building for federally funded agencies should be considered.

   d. Are current space lease requirements realistic? The State Property Office has made progress in the past few years by adopting more flexible criteria in lease specifications.

4. Effect on Local Property Tax Base and Economy

   This must be considered on a case-by-case basis.

   a. If the local real estate market is weak, building a state building could lower property values as well as remove the state-owned property from the tax base.

   b. A new state building in a depressed area could spur additional investment in the surrounding area, having a net positive effect on the tax base.

   c. If a proposed project includes substantial construction, the funds expended would have a positive effect on the local economy during the construction period.

5. Projected Operating Costs must be based on the local area; not on Raleigh costs where economies of scale are possible.

6. Flexibility
Government programs grow, shrink, disappear and reorganize on a fairly regular basis. State ownership of a structure reduces somewhat the State's flexibility to respond to these changes.

7. Other State-Owned Property
Does the state have other buildings available in the locale, perhaps owned by an agency different from those needing space, that could be renovated for office space. If so, this should be one of the alternatives compared.

8. Scope
A minimum size requirement might be needed to evaluate alternatives. For general office space requirements of less than, for example, 20,000 square feet, the cost of construction, operation, or management of a new property may not be feasible.

Fiscal Research Division
March 24, 1982

Perceived Difficulties With Capital Improvement Decision-Making Process

1. Lack of Support for Maintenance, Repairs, Renovations

   a. Agencies tend to favor new capital projects over the need for timely repairs and preventive maintenance. New projects get more attention, and are more likely to be recommended by the Advisory Budget Commission and funded by the General Assembly.

   b. A long-term plan for ongoing maintenance and project repair and renovation costs is needed. This would allow better overall conservation of current capital investments, could spread the costs evenly for budgeting purposes, and could save money by reducing emergency repairs.

   c. The Department of Administration needs to take a stronger role in assisting agencies to develop long-range ongoing maintenance, renovation and disposition plans. The Office of State Budget and Management must merge these various plans into a realistic capital budget plan, taking into account projected needs for the specific programs the facilities serve.

2. Lack of a Long-Term Capital Improvement Budget

   The Office of State Budget and Management is making strides toward a capital improvement plan. The 1981-83 biennial budget includes a six-year projection of capital improvement needs and requests from 6 departments. The university system, one of the major property owners, is not included. Some other long-term funding requirements are also missing.

   An ongoing maintenance plan is a prerequisite for a long-term capital budget.

3. Need for Comprehensive Review of Capital Requests

   As the Office of State Budget prepares a long-term capital plan, it needs assistance from various agencies to review the proposals.

   (a) Do the proposals meet projected maintenance and repair needs? The Department of Administration needs to improve its efforts in statewide assessment in maintenance planning.

(b) Are the projects needed? Is other space available? The State Property Office in the Department of Administration is capable of reviewing space requests across various agencies with its statewide property inventory. This review must be in conjunction with Budget Office review of the assumptions for program operations used in making a capital request.

(c) Are the costs realistic? The State Construction Office in Administration must review biennial budget requests for cost estimates.

4. <u>Lack of Substantial Ongoing Appropriations for Maintenance, Repairs and Renovations</u>

Without a long-term plan, there has been little effort to carve out a steady piece of the budget for maintenance of capital facilities. However, ongoing support will be necessary to carry out maintenance plans and to encourage agencies to make maintenance a high priority.

40 U.S. Code 606

§ 606. Approval of proposed projects by Congress

(a) Limitation of funds; transmission to Congress of prospectus of proposed project. In order to insure the equitable distribution of public buildings throughout the United States with due regard for the comparative urgency of need for such buildings, except as provided in section 4 [40 USCS § 603], no appropriation shall be made to construct, alter, purchase, or to acquire any building to be used as a public building which involves a total expenditure in excess of $500,000 if such construction, alteration, purchase, or acquisition has not been approved by resolutions adopted by the Committee on Public Works of the Senate and House of Representatives, respectively. No appropriation shall be made to lease any space at an average annual rental in excess of $500,000 for use for public purposes if such lease has not been approved by resolutions adopted by the Committee on Public Works of the Senate and House of Representatives, respectively. For the purpose of securing consideration for such approval, the Administrator shall transmit to the Congress a prospectus of the proposed facility, including (but not limited to)—

(1) a brief description of the building to be constructed, altered, purchased, acquired, or the space to be leased under this Act;

(2) the location of the building or space to be leased and an estimate of the maximum cost to the United States of the facility to be constructed, altered, purchased, acquired, or the space to be leased;

(3) a comprehensive plan for providing space for all Government officers and employees in the locality of the proposed facility or the space to be leased, having due regard for suitable space which may continue to be available in existing Government-owned or occupied buildings, especially such of those buildings as enhance the architectural, historical, social, cultural, and economic environment of the locality;

(4) with respect to any project for the construction, alteration, purchase, or acquisition of any building, a statement by the Administrator that suitable space owned by the Government is not available and that suitable rental space is not available at a price commensurate with that to be afforded through the proposed action;

(5) a statement by the Administrator of the economic and other justifications for not acquiring or purchasing a building or buildings identified to the Administrator pursuant to section 12(c) of this Act [40 USCS § 611(c)] as suitable for the public building needs of the Federal Government; and

(6) a statement of rents and other housing costs currently being paid by the Government for Federal agencies to be housed in the building to be constructed, altered, purchased, acquired, or the space to be leased.

(b) Increase of estimated maximum cost. The estimated maximum cost of any project approved under this section as set forth in any prospectus may be increased by an amount equal to the percentage increase, if any, as determined by the Administrator, in construction or alteration costs, as the case may be, from the date of transmittal of such prospectus to Congress, but in no event shall the increase authorized by this subsection exceed 10 per centum of such estimated maximum cost.

(c) Rescission of approval for failure to make appropriations for project. In the case of any project approved for construction, alteration, or acquisition by the Committees on Public Works of the Senate and of the House of Representatives, respectively, in accordance with subsection (a) of this section, for which an appropriation has not been made within one year after the date of such approval, either the Committee on Public Works of the Senate or the Committee on Public Works of the House of Representatives, may rescind, by resolution, its approval of such project at any time thereafter before such an appropriation has been made

(d) Emergency leases by the Administrator. Nothing in this section shall be construed to prevent the Administrator from entering into emergency leases during any period declared by the President to require such emergency leasing authority, except that no such emergency lease shall be for a period of more than 180 days without approval of a prospectus for such lease in accordance with subsection (a) of this section.

(Sept 9, 1959, P. L. 86-249, § 7, 73 Stat 479, June 16, 1972, P. L. 92-313, § 2(4), 86 Stat. 216; Oct. 18, 1976, P. L. 94-541, Title I, § 103(1), (2), 90 Stat. 2505)

COMPTROLLER GENERAL

REPORT TO CONGRESS (excerpt, pages 8-9)

December 11, 1981

PLRD - 82-18

INCREASE IN EXPENDITURES
FOR LEASED SPACE

GSA manages about 233 million square feet of space (office, storage, and special purpose but not outside parking) of which 139 million is Government-owned and 94 million is leased. The expenditure for leased space has increased dramatically from $364 million in fiscal year 1975 to an estimated $722 million in fiscal year 1982. If the present trend continues, annual leasing costs will exceed $1 billion in the next 3 to 4 years.

As we discussed in our October 17, 1979, report (LCD-80-7), Government-owned buildings have a more favorable long-term budgetary impact, from the standpoint of the Fund, than leasing but leasing has a short-term budgetary advantage. Large up-front cash outlays are required for a construction project. Since the full funding concept applies to construction (recording of total project cost as budget authority in the first year), there is a sizable impact on the budget the first year. However, over the long term, the impact on the budget for a construction project is less than for leasing and a larger surplus (receipts less outlays) is generated for the Fund. Leasing, on the other hand, has a short-term budgetary advantage because total rent payments are not recorded in the budget the first year. They are spread over the lease period and recorded annually--partial funding. However, the cumulative cash outlays for leasing over the long term are greater than for a construction project and the surplus generated for the Fund by leasing is minimal.

We have reported and testified that as a matter of budget policy, we favor the full funding concept because it more accurately discloses the total obligations associated with a project. Application of the full funding concept to construction or to acquisition projects is difficult because of the large initial outlays for such projects which have a significant impact on the national budget in the year that appropriations are approved. In times of unusually large demands on the budget, construction projects, because of their impact, are the first to be eliminated. Since sufficient funds have not been available for construction, either from direct appropriations through fiscal year 1974 or from the Fund since it started operating in fiscal year 1975, GSA has been unable to sustain a viable construction program, and it has relied on leasing as the only practical method available to meet space needs.

Currently, the full funding concept does not apply to leasing. The total rent payments on leases (up to 20 years in some cases) to which the Government is committed are much greater than the annual lease payments that appear as budget authority in the annual appropriations acts. For example, in fiscal year 1980, annual lease payments of $575 million appear as budget authority in GSA's annual appropriation act, yet the Government is committed to over $2 billion in lease costs over the remaining life of these same leases.

The cumulative outlays on a lease spread over 20 years will be greater than the total outlays for a comparable federally constructed project. Recording the budget outlays in one year rather than in 20 increments has a greater impact for the federally constructed project in the first year.

In testimony before the Senate Committee on Environment and Public Works in January 1980, we discussed the inconsistent application of the full funding concept to construction and leasing. Also, in a May 21, 1981, letter to the Chairman, House Committee on Public Works and Transportation, we expressed the opinion that there should be a consistent application of the full funding concept to both leasing and to construction projects. So that the total budgetary impact of either a lease or a construction project is disclosed and compared uniformly, the total costs should be recorded as budget authority in the first year.

Section 802(b) of Senate bill 533, which passed the Senate in May 1981, would require the application of the full funding concept to leasing. It states that, "No lease shall be entered into unless an appropriations has first been made for the maximum cost of such lease over its entire term in the fiscal year for which an appropriations is authorized."

In commenting on this provision, the Senate Committee report (97-48) states that:

> "Under present accounting procedures, each year's new authority to lease is used by GSA to enter into leases of from one to twenty years, with only the current year's obligation counted against that authority. This omission of lease commitments for all future years from both the Executive Branch and congressional budgets, grossly understates leasing costs. It skews the decision away from construction and acquisition, and introduces a bias in favor of constantly escalating lease commitments."

LEASING VERSUS CONSTRUCTION: REPORTS FROM OTHER STATES

The following is a summary of the findings and recommendations of reports treating the issue of construction versus leasing of public office space in seven states:

Connecticut
Florida
Louisiana
Maryland
Massachusetts
New Jersey
Wisconsin

CONNECTICUT

In October, 1981, several Connecticut state agencies (Department of Administrative Services, Bureau of Public Works, Facilities Planning Section, and Energy Management Section) issued a report updating two previous reports: Statewide Office Study (1967) and Connecticut Capitol Center Master Plan (1969), which compiled data and made recommendations with respect to state office space needs and a comprehensive state development program.

The 1981 report reviewed the previous recommendations in light of more current data and trends. The report indicated that the state population and demand for state office space would continue to grow, although at a much slower rate than previously projected.

Currently, a Connecticut law (Public Act 75-425) recommends state construction or purchasing of office space rather than leasing where occupancy will exceed five years. The 1981 report recommends that this policy be continued for the following reasons:

(a) Cost analyses show that, based on projected leasing and construction costs beginning in 1985, leasing and construction annual payments break even in the fifteenth year, and in the twenty-sixth year, "aggregate costs equalize so that after 2012 there is significant economic advantage to the new building." (Page 8 of the report.) The projected construction costs included interest rates at 8.5% per annum for 20 years, maintenance and energy costs of at least $3.90 per square foot, and payment in lieu of taxes estimated at about 4% of the assessed value. The projected leasing costs were based on the current rate plus the average operating costs for leased space inflated to 1985.

(b) New energy-efficient buildings can be designed so that energy costs are one-half of those in facilities being leased.

(c) New efficiently-designed buildings would improve working conditions and service delivery to the public and lower the cost of housing per employee.

(d) Consolidation of central government offices in space-efficient buildings will reduce the duplication of functions and personnel in multiple locations, as well as the consequent costs and delays involved in extended communication and travel between offices.

FLORIDA

The Florida Department of General Services has issued two reports in which the question of leasing versus ownership was considered: Florida 2000, A Report on Regional Service Centers (1970) and Office and Support Space Needs Study (1980).

Both studies concluded that construction would save the state substantially more money than leasing. This conclusion was premised in part on the findings of the two studies that Florida's population and state employment would increase considerably in the next years.

Growth in Population and State Employment

The 1970 report projected that the state's population would nearly double between 1970 and 2000 and that the percentage of state employees to total state population would remain the same during that period - 1.17%. The 1980 study predicted that the state's population would grow by 43.82% in the next 20 years and that state employment would grow by 35.12% during that period.

Florida is in the process of consolidating governmental state agency facility requirements into regional service centers (similar to the Maryland Multiservice Centers, discussed below) at several locations in the state. The stated reason for the development of these regional centers is to ensure that the public will receive prompt and efficient service and economical expenditures of their tax dollars.

Cost Comparison and Conclusion

The 1970 Florida study found that state construction and ownership would cost the state substantially less in the cases of both 20-year and 30-year bonds (even excluding the value of the state-owned land and building after 20 or 30 years) than renting. The report compared projected future costs (conservative by its estimates) per square foot of renting with construction costs per square foot at 5 1/2% and 7 1/2% bond interest rates. Janitorial services were excluded in both renting and ownership estimates.

The 1980 report also concluded that annual and cumulative cost savings would be realized by construction and acquisition, and its recommendations included the following (on page 41):

> "Where possible, provide for state ownership of office and support facilities by construction, purchase, lease purchase or other such acquisition methods, to decrease the funding required for direct lease, which provides no return on its investment to the state."

LOUISIANA

The Louisiana Public Affairs Research Council issued in November, 1981, a report entitled Leasing State Facilities. This report discusses the means by which Louisiana leases office space and compares its method to that of other states based on a survey the Council conducted of 35 other states.

The report considers the question of leasing versus ownership of state office space. The report recommends that a policy be developed to determine whether the state should build, buy, or lease in a given situation. It suggests that the decision be made on a case-by-case basis and that a number of factors be considered in each case:

-- A projection of future construction and rental costs should be included.
-- Cost effectiveness should be taken into account. The state builds equity in state-owned property, but does not in rented property.
-- The state should determine how important flexibility in a given situation might be. When leasing, a state can adjust more easily to changes in program location and amount of space needed.
-- Leasing may be advantageous for social services, education, and other programs that are heavily subsidized by the federal government, since federal reimbursement may include money for rent.
-- The state should carefully consider the availability of money for large capital outlays, as well as bond market conditions.
-- The state should consider the loss of local government tax revenues that state ownership would cause.
-- The state should also factor in the tax advantage of either leasing or owning. The Louisiana State Government levies no property tax and has a low income tax and therefore has an advantage in owning facilities. "In leasing, the state would receive only a small portion of its lease payment back from the lessor's income tax payments. At the same time, the state's rental payments would include money the landlord would pay to the federal government in income taxes and to local governments in property taxes." (Page 22 of the report.)
-- In small communities where there are no established maintenance crews, it might be to the state's advantage

to use a privately owned and maintained building. "The federal government, for example, relies heavily on leased property for many of its offices outside the Capital because of the difficulties in providing maintenance services in many places." (Page 21 of the report.)

- -- Consolidation of government functions into energy-efficient, space-saving buildings saves excessive future leasing costs, energy costs in old buildings, travel time, and communication costs.
- -- Convenience and service delivery to the public and employees' working conditions should be considered.

The report also recommends that when a decision is made to lease, the Louisiana state government should use competitive negotiation together with an up-to-date market survey, rather than the currently used bid process. The report states that competitive negotiation would increase efficiency in the lease process, provide the flexibility needed in selecting space for state agencies, and better serve the state's financial interests.

The report concludes that Louisiana needs a complete plan for leasing, purchasing, and building office space to meet the needs of state agencies and the public. The report likened the state facility situation in Louisiana to that of a contractor who began to construct a facility without a plan, then added indiscriminately to the building as he went along, creating an expensive mess. The study found that the absence of a comprehensive plan in Louisiana has resulted in the waste of money and space.

MARYLAND

In 1972, the Maryland Department of State Planning began developing a "Multiservice Center System" to relieve poor and overcrowded office conditions and make state services more convenient and accessible to the public. The original plan called for the construction of 44 multiservice facilities across the state to consolidate delivery from 448 separate office locations then being leased. The Maryland General Assembly funded the construction of 13 of these regional centers. In 1981, the Department of State Planning issued a report (entitled "Multiservice Center Re-evaluation Study") discussing the merits of the scaled-down multiservice center scheme.

Cost Analysis

The report includes a cost analysis of the construction versus leasing issue. Five areas in the state deemed representative of the statewide diversity in terms of service needs and designated as sites of regional centers were selected for the analysis. Factors included in the cost analysis were: costs of land acquisition, construction, fees, maintenance, and interest. Leasing costs based on current and projected future market value were also factored in.

The results of the analysis indicated that 1) it would cost on the average about twice as much to build as to lease for the first 15 years of operation, and 2) it would cost 10% to 20% more to lease than build over a 40 year period. These findings exclude the salvage value of the state-built facilities. It was estimated that if site and structure salvage factors were calculated, the salvage value of the facility would be at least equal to the original construction cost plus interest.

The report also discussed briefly an alternative to leasing and state construction: the state could contract with a landlord-owner to lease office space in a building constructed and paid for by the private landlord in accordance with state specifications. The state would maintain a purchase option on the building during the lease period. The state has not pursued this alternative because potential landlord-owners want assurances that the state will eventually purchase - assurances that the state is unwilling to give.

Local Impact

The Maryland Department of State Planning hired a consultant to analyze the impact of building state facilities on local communities. Detailed data were collected and analyzed in terms of the following factors:

1) anticipated impact on available commercial space and lost revenues from commercial rentals;

2) socio-demographic changes, such as in employment, population density, and income; and

3) parking requirements and traffic patterns.

The study found that loss of revenues from commercial real estate taxation would range from 11% to 22% of total revenues. On the other hand, the resulting lower cost in office space due to greater availability would serve to attract business to the area.

With respect to socio-demographic changes, the study concluded that because state agencies and services to be housed in state-built facilities are already located in the designated communities, the location of the regional centers there would not represent new employment opportunities, significantly increased income, or increased population density.

The study also indicated that new state-owned facilities would have no significant traffic or parking impact on the communities.

Conclusions

The 1981 Maryland report concluded that the 13 regional centers should be built because construction was more economical to the state than leasing. The report added, however, that cost benefit should not be the sole criterium for determining whether or not to build or lease in the future, because cost benefit does not take into account such criteria as availability of state funds to build, future space availability for leasing, and the quality and convenience of available leasing space.

Finally, the report concludes (on page 54):

> "Due consideration will continue to be given to exploring the use of leased space as the primary means of providing facilities to house State programs.

Hereafter, because of escalating construction costs and other more pressing demands placed upon the State's financial resources, a request for the construction of any future MSC facility should be initiated only if it can be justified against other capital priorities."

MASSACHUSETTS

The 1972 Massachusetts report was the result of a legislative directive which sought information to determine if the use of private industry leasing could replace construction of public facilities. The study was prompted by concern with problems associated with the construction of public facilities, such as escalating construction costs.

Alternatives to Public Construction

The report does not contain a cost comparison of leasing versus construction, but rather discusses several alternatives to state construction of office space:

1) Leasing. In Massachusetts, the state may lease for a period of five years, with a right to renew the lease under the same terms and conditions. The lease conditions are generally favorable to the state-lessee. The state reserves the right to terminate the lease, under certain conditions, before its expiration. State leases contain no "cost of living" or "tax escalation" clauses to compensate the lessor for increased costs during the duration of the agreement. Notwithstanding these apparent disadvantages to the landlord, state leasing increased ten-fold from 1965 to 1972. At pages 16-17, the report provides:

   "Leasing private property instead of direct construction relieves the government of the onus of long-term indebtedness. Among other advantages, maintenance, custodial services and insurance against fire, injury or vandalism is provided by the owner. A lease gives the governmental agency a fluid position,,with the opportunity to move to service the needs of a shifting population. Finally, the municipality receives real estate taxes from the private owner and good public relations are kept, in contrast to the situation if the facility was tax exempt."

2) Private Construction and Sale. This method provides for the construction and ownership of a building to house state employees by a private party and subsequent sale of the building to the state. "Among the advantages to the public body/purchaser are (1) payment of taxes by the private owner, (2) the opportunity to inspect the completed project before purchase and (3) the assumption of risk by the contractor of unforeseen circumstances during the period of construction." (page 16) The disadvantages include lack of supervision of the construction and quality of the materials used and the lack of competitive bidding to produce the lowest price.
3) Lease-Purchase. This method frees the public agency lessee from the maintenance costs of the premises. On the other hand, because taxes and the lessor's profit are factors in determining the rental charge, the government lessee is in effect partially subsidizing those costs.

NEW JERSEY

In 1973, the New Jersey State Legislative Office of Fiscal Affairs issued a report entitled, "Program Analysis of Office Space for State Agencies." The study was prompted by concern over heavy state reliance on leased office space resulting in a $22 million rental budget.

Cost Analysis

The study included a calculation of the costs of a long-term lease compared to the cash outlay of constructing and operating similar space for the same period of time.

The cost analysis indicated that it is less expensive for the state to build and maintain its own office facilities than to lease for the following reasons:

1) The state can borrow money at about two-thirds of the commercial loan rate.
2) The state does not need to make a profit.
3) The state can take advantage of asset value appreciation and self-insurance.

To calculate the market value of the state-owned building after a period of use, the study treated the building in three different ways: 1) as an asset with a straight-line depreciation value; 2) as retaining a salvage value equal to its construction cost; and 3) as retaining a value equal to its replacement value. The study indicated that the latter two approaches were the most realistic and found that in both cases state ownership is much more cost effective than leasing. (page 56)

In a rebuttal (see Enclosure 1 of the report) to the report's findings the New Jersey Division of Purchase and Property countered that construction was not necessarily more economically advantageous than leasing. The Division Director stated that ownership requires large dollar outlays which, although currently available, may not be available in the future. At page 5 of Enclosure 1, he writes: "Leasing represents a 'pay as you go' transaction and termination is more convenient. Management and security become problems with State-owned buildings and maintenance is an ever-increasing expense."

Impact on Local Tax Revenues

The new Jersey study included an analysis of the impact of state ownership of office facilities on local revenues.

In New Jersey, county and municipal governments are not permitted to levy property taxes on state-owned facilities. Local police and fire protection, sewer and road maintenance services are financed primarily by taxing property. Therefore unless the legislature makes specific provision to compensate local governments for in-lieu taxes, the services provided to these facilities are paid for by local property owners. State-leased facilities keep private property on the tax roles and still allow use by state agencies. "Yet, an examination reveals that leasing is an imperfect method for both keeping state agencies housed and maximizing tax bases." (page 19)

The study found that taxes on state-leased buildings and office space bear no consistent relationship to floor space or to rental income. For example, some cities received no property taxes from state-leased facilities because the land under the building was city-owned and therefore tax-exempt. Local taxes are based on such variables as location, amount of land, age of building, and history of tax appeals. The report stated that the difference in property tax rates among local jurisdictions obscured what might be appropriate repayments for local government services to state-leased facilities.

In its analysis of state facility ownership impact on local taxes, the report concluded:

> "a comprehensive program to compensate local governments for services supplied to State facilities located within their boundaries should be considered by the Legislature. The establishment of such a program will guarantee local tax revenues regardless of whether a State facility is owned or leased and should encourage local government participation in the planning of state government facilities." (page 21)

Recommendations

The New Jersey report states that the factors that enter into the decision to build should include: the likelihood of the increase in state government, future need of state office space, debt limitations, site availability, cost of supportive services, acceptability of design, priorities among capital improvements, construction costs, interest rates on government bonds, and calculation of return on capital investments.

The report makes the following recommendations:

1) Leasing is preferable when a program or agency needs space for a limited time or when continuation of the program is deemed highly uncertain.
2) Permanent state agency headquarters should be owned.
3) Any agency or program needing space for more than 5 years should be housed in owned space.

WISCONSIN

In response to a request from the Wisconsin Building Commission, the Wisconsin Department of Administration prepared a report on policy issues regarding location of state office facilities. The focus of the 1979 report is on the extent to which social, economic, environmental, and cultural considerations of urban locations should be considered when determining where a state facility should be leased or built. The report discusses briefly the issue of ownership versus leasing of state facilities but concludes that this issue is independent of location in most cases, is best treated by an analysis of direct costs and benefits, and consequently should be addressed on a case-by-case basis. (page 7)

Prepared and Submitted by,

Dennis W Bryan

Dennis W. Bryan
Committee Counsel