FY 2019 Recommended Budget

Budget Question

Board Question #: 63

BUDGET QUESTION: In follow-up to Budget Question #22, provide the financial analysis of options related to leasing a building for DSS compared to constructing and owning a building for DSS.

RESPONSE: The attached table shows both sides of the finances – revenue and expenditures – for three options:

Option A – An all-inclusive ("triple-net") commercial lease of 30,000 sq. ft of office space. For purposes of this analysis, we have assumed rent of the former Capital One building at $17/sq. ft. annual rent for the first eight years (period through which the sublease is available), followed by current market rate rent of $18.25/sq. ft. each year for the same space thereafter beginning in Year 9.

Option B – Construction and ownership of a 30,000 sq. ft. building for DSS through which the County is reimbursed by the State based upon depreciation of the building over a 50-year term. The depreciation would have to be an expense to the DSS budget in this option, and the County would be reimbursed a percentage of that depreciation.

Option C – Construction and ownership of a 30,000 sq. ft. building for DSS through which the County is reimbursed by the State based upon depreciation of the building over a 50-year term. In this option, partial reimbursement of the building depreciation would be reimbursed through the end-of-year cost allocation plan as is currently done for the Merchants Square location. This option yields a slightly lower cost reimbursement rate, causing the revenue received from the State to be less in this option than in Option B for the same building.

Because the depreciation reimbursement of a County-owned building will be based on a 50-year depreciation schedule, the only way to do an apples to apples comparison is to look at each option – lease or own – over a 50 year period. We realize costs will change over a 50 year period due to inflation and other factors. However, to avoid making a multitude of assumptions about out-year cost changes for all aspects of related building/lease costs and reimbursement rates, we have performed this analysis using today's costs and today's reimbursement rates over a period of 50 years. This, in our professional opinion, is the cleanest way to attempt a valid comparison.

You will see in the attached table that the net tax support required over the long-term by the lease option (Option A) exceeds that of either of the two building ownership options (Options B and C).

County Administration indicates that other options continue to be considered.

	Option A Commercial Lease	Option B Depreciation as Lease	Option C Depreciation in Cost Allocation
Over 50 year term*			
In 2018 dollars^			
Revenue -			
Reimbursement Fed Pass-Thru	$7,650,000	$5,425,500	$5,061,714
Total Revenue - over 50 year term	**$7,650,000**	**$5,425,500**	**$5,061,714**
Expenditures -			
DSS Lease	$27,075,000	n/a	n/a
Buildout of space to suitable use	$350,000	n/a	n/a
Purchase Building	n/a	$10,000,000	$10,000,000
Utilities/Insurance/Maintenance	included in lease	$6,960,000	$6,960,000
Roof Replacements	included in lease	$400,000	$400,000
HVAC Replacements	included in lease	$1,500,000	$1,500,000
Interior Painting Redo	included in lease	$166,400	$166,400
Flooring Replacement	included in lease	$825,000	$825,000
Total Expenditures - over 50 year term	**$27,425,000**	**$19,851,400**	**$19,851,400**
Net Tax Support - over 50 year term	**$19,775,000**	**$14,425,900**	**$14,789,686**

* The only true apples to apples comparison is over 50 years because the two depreciation methods of reimbursement are based on a 50-year depreciation of the building.

^ Did not attempt any assumptions at inflation or changes in reimbursement rates in the out years. Did assume current market rate (instead of reduced rate) of leased space beginning in Year 9 of lease because the sublet at a lower-than-market rate is possible only for 8 years.