

Office of the County Auditor

Auditor's Analysis

Council Bill No. 6-2024

Introduced: February 5, 2024

Auditor: Rebecca Gold

Fiscal Impact:

The fiscal impact of this legislation is approximately \$8.7 million in expenditures over the term of the lease agreement, including extensions, with AAK II, LLC. The leased space will be used to house the Bureau of Utilities' Customer Care Divisions and Regulatory Services.

The total expenditures of \$8.7 million includes:

- \$3,176,885 in base rent payments over the initial 10.5 years, according to the agreement.
- Approximately \$3,900,000 for ten years of additional rent payments if the County exercises both five-year extension options, assuming a 2 percent annual escalation rate.
- Approximately \$900,000 in direct County payments for electric and custodial services over the lifespan of the lease agreement and the two extension periods (a total of 20.5 years), assuming a 2 percent escalation rate.
- Approximately \$773,000 in up-front costs for installation of security measures, signage, lighting, furniture, etc.

See **Attachment A** for an itemized breakdown of these costs.

Per the RESD, payments from the County are expected to begin in FY 2025, as the lease commencement date is anticipated to be either July or August 2024. The projected budget appropriation will be programmed into the Water & Sewer Operating Fund for FY 2025, which will be used to cover all costs associated with the leased space.

The RESD also indicated that use of the Samuel Morse Drive location will supplement the current location and enable the County to implement the Bureau of Utilities Master Plan. A Concept Planning Report provided by the RESD indicates that potential costs of this master plan would include \$6.9 million of costs over a five-year period to maintain the Bureau's existing buildings and \$62.2 million of costs over a 15-year period to construct a new campus. This master plan would also generate additional costs from the hiring of new staff and purchasing of equipment and vehicles.

Purpose:

Council Bill 6-2024 proposes that the County enter into a multi-year lease agreement with AAK II, LLC, for office and warehouse space located at 7095 Samuel Morse Drive in Columbia. The agreement includes an initial ten-and-a-half-year term, with the option of two term extensions of five years each.

Other Comments:

If this bill passes and the lease is executed, the RESD indicated that 39 staff will be moved from the current Bureau of Utilities location (at 8270 and 8250 Old Montgomery Road, Columbia) to the new leased location.

Per the RESD, the County toured seven properties. The Samuel Morse Drive property was selected due to its location, parking availability for County vehicles, and layout that contains a mix of office and conditioned warehouse space. In addition, the County negotiated with the property owner to have tenant build-out costs and operating expenses included in the base rent.

Attachment A

Pre-Occupancy Costs

Cost Type	Amount
Data Cabling/Equipment	\$ 119,171
Signage Installation	6,529
Security Installation	104,456
Relocation	16,000
Furniture	328,400
Audio/Visual	50,000
Site Lighting	20,000
Contingency Funds	128,911
Total	\$ 773,467

Note: All pre-occupancy costs will be incurred in the Water and Sewer Operating Fund.

Initial Term – Base Rent and Direct Cost Expense

The County would enter into a ten-year, six-month lease agreement with a beginning rate of \$22 per square foot, escalating at a rate of 2 percent per year, which would result in the estimated costs as noted below:

Fiscal Year	Base Rent	Direct Costs	Total
2025 (6 months)	\$ 143,627	\$ 35,907	\$ 179,534
2026	292,999	36,625	329,624
2027	298,875	37,357	336,232
2028	304,881	38,105	342,985
2029	310,887	38,867	349,754
2030	317,155	39,644	356,798
2031	323,552	40,437	363,989
2032	329,950	41,246	371,196
2033	336,609	42,070	378,680
2034	343,269	42,912	386,180
2035 (6 months)	175,081	21,885	196,979
Grand Total	\$ 3,176,885	\$ 415,054	\$ 3,591,939

Note: Direct costs represent the costs the County pays directly for electricity and custodial services.

Optional Renewal Term – Base Rent and Direct Cost Expense

The estimated Fiscal Impact of the lease's five-year extension periods through December 2044 is noted below:

Fiscal Year	Base Rent	Direct Costs	Total
Extension 1	\$ 1,840,475	\$ 230,059	\$ 2,070,534
Extension 2	2,032,033	254,004	2,286,037
Grand Total	\$ 3,872,507	\$ 484,063	\$ 4,356,571

We have assumed the initial term's base rent escalation of 2.0 percent will be maintained throughout the renewal term for base rent and direct costs.