

Office of the County Auditor

Auditor's Analysis

Council Bill No. 42-2024

Introduced: July 1, 2024

Auditor: Rebecca Gold

Fiscal Impact:

The fiscal impact of this legislation is approximately \$11.07 million in expenditures over the term of a ten-year and eight-month agreement for office space, inclusive of two 5-year lease extensions. The leased space will be used to house a portion of the Police Department's staff.

We contacted the Department of Public Works' Real Estate Services Division (RESD) and confirmed that funds have been appropriated in the General Fund to cover any FY 2025 expenses associated with the agreement. Estimated expenditures over the life of the agreement are expected to include:

- \$4,498,148.16 in base rent payments over the initial ten years and eight months of the agreement
- \$5,914,100 for ten years of additional rent payments if the County exercises both five-year extension options, assuming a 2.75 percent annual escalation rate and stable rent¹
- \$640,682 in up-front capital costs to install security measures, signage, furniture, etc.
- \$16,000 in operating costs to move a portion of the Police Department to the new location

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

According to the RESD, the 2.75 percent escalation rate includes direct operating expenses such as utilities, maintenance, repairs, and real estate taxes.

Purpose:

Council Bill 42-2024 proposes that the County enter into a multi-year lease agreement for 16,416 square feet of office space located in Howard County. The agreement includes an initial ten-year and eight-month term, with the option of two 5-year extensions.

Other Comments:

The RESD expects that the lease will be in place and the space ready for occupancy between June 1, 2025, and July 1, 2025.

¹ Per RESD, the annual rent may be renegotiated for the fair market value prior to exercising the extension options.

The affected Police Department staff are currently housed in a smaller, 8,637 square foot facility, where the FY 2025 base rent is approximately \$236,050 and annual operating expenses are estimated to be \$27,500. The County does not intend to renew its lease at the current location. Upon the lease's expiration on June 30, 2025, the space will be surrendered to the landlord.

The Police Department indicated that approximately 30 staff members will be moved from the current location to the new leased location. This move is necessary to provide space for a growing division and will help the Police Department carry out its functions more efficiently.

Attachment A

Pre-Occupancy Costs

Cost Type	Amount
Furniture	\$ 291,800
Data Cabling/Telecom Equipment	131,328
Security	82,080
Audio/Visual	65,664
Contingency Funds	58,244
Signage Installation	6,566
Phones/IT Equipment	5,000
Total	\$ 640,682

Note: The majority of pre-occupancy costs will be paid with FY 2025 PayGo funds. A portion of the fiber and telephone installation costs will be supported with funds from the Department of Public Works Director's Office. These estimates were provided by the RESD.

Initial Term – Base Rent Expense

The County would enter into a ten-year, eight-month lease agreement with a beginning rate of \$23.80 per square foot, escalating at a rate of 2.75 percent per year, which would result in the estimated costs as noted below:

Fiscal Year	Base Rent
2026	\$ 325,584.00
2027	334,476.00
2028	343,778.40
2029	353,217.60
2030	435,516.48
2031	447,500.16
2032	459,812.16
2033	472,452.48
2034	485,421.12
2035	498,718.08
2036 (8 months)	341,671.68
Total	\$ 4,498,148.16

Note: These estimates were provided by the RESD. Direct costs for electricity, pest control, trash removal, and custodial services will be the landlord's responsibility.

Optional Extension Terms – Base Rent Expense

The estimated Fiscal Impact of the lease's five-year extension periods through FY 2046 is noted below:

5-Year Extensions	Base Rent*
Extension 1	\$ 2,756,803
Extension 2	3,157,294
Total	\$ 5,914,097

We have assumed the initial term's base rent escalation rate of 2.75 percent will be maintained throughout the extension term for base rent. The base rent may be renegotiated prior to extending the agreement.