TO:        Ken Burke  
Clerk of the Circuit Court

FROM:        Robert W. Melton, Chief Deputy Director  
Internal Audit Division

SUBJECT:   Interim Audit Report for Clerk’s Print Shop Operations, Renewal of the Lease Agreement for the Clerk’s Printing Services Building

DATE:        June 30, 2009

While performing the audit of the Clerk’s Print Shop Operations, issues were found related to the renewal of the current lease agreement for the Clerk’s Printing Services building. Because the County budget process is underway, as well as the potential lease renewal and our recommendations involve potentially significant savings, we are issuing this interim report to facilitate timely decision-making.

Background:

The Clerk’s Printing Services building, which is considered a light manufacturing/warehouse facility, is located at 12100 28th Street North in St. Petersburg, and occupies approximately 14,500 square feet of space (12,500 square feet of warehouse space and 2,000 square feet of office space) and 30 parking spaces. The Clerk’s Records Management Division also uses portions of the building. Both departments occupy approximately 8,000 square feet of the office and warehouse space with the remaining space used as storage for the forms, copy/printing paper and computer equipment.
Observation:

The Current Printing Services Renegotiated Lease Agreement Is Not In The Best Interest Of The County And Could Save The County About $357,723 By Moving To Another Location.

Pinellas County initially entered into a lease agreement with Workman Properties, Inc. (Landlord) in June of 2000. At that time, the Clerk’s Printing Services and Records Management had to be relocated from the Clearwater Annex building due to renovations. Under the conditions of the lease agreement, the Landlord is responsible for:

- Property taxes
- Insurance
- Maintenance

The County pays:

- All utilities
- Janitorial services
- Pest control (triple net type lease)

The current lease rate is $10.19 per square foot per year or $147,762 annually and expires on June 30, 2009. Per Real Estate Management, the current lease was recently renegotiated and the Landlord verbally agreed to an 8% discount beginning July 1, 2009 under the condition that the County renews the contract for another 3 years. The 8% discount means that the County would pay $135,941 per year with a potential annual savings of $11,821 compared to the current rate.

Based on the review of the comparable properties available for lease in central Pinellas County and information obtained from the local commercial real estate research publications, the lease rate charged for the Printing Services building appears unreasonably higher than the current asking commercial lease rates for the comparable properties in the area. The renegotiated lease agreement appears not to be in the best interest of the County and will require the County to spend tens of thousands of dollars annually more than necessary.
The graph below illustrates the comparable light manufacturing/warehouse properties currently (May 2009) available for lease in central Pinellas County.

Note:

All leases except #10 are “triple net” leases, which includes property taxes, insurance and maintenance.

The lease on property #10 is a “modified gross,” which includes property taxes, insurance and all operational expenses in the first (base) year. In subsequent years, the lessee is responsible for a percentage of increases in building property taxes, insurance, utilities and other operating expenses.
Based on the above information, the median light manufacturing/warehouse asking lease rate is $6.45 per square foot. As a result, the County is currently paying 37% more per square foot ($10.19) than the median lease rate for a comparable property.

Per Grubb & Ellis, *Industrial Market Trends Tampa Bay First Quarter 2009*, quarterly newsletter, the average asking rate (triple net) for the warehouse space is $5.55 in North Pinellas and $5.67 in South Pinellas, which dropped from the last quarter of 2008, which were respectively $5.65 and $5.92.

Further, the newsletter indicated the vacancy rates for the commercial real estate sector are:

- 6.8% in North Pinellas
- 8.5% in South Pinellas
- Average vacancy throughout the County was approximately 7.65%

According to the *Marketbeat Pinellas County Industrial Report 4Q08, A Cushman & Wakefield Research Publication*, at the end of 2008, tenant demand decreased and so did the net rental rates and the absorption. The cost to lease manufacturing space (accounts for 52.3% of the industrial space in Pinellas
County) decreased significantly by $1.07 per square foot since year end in 2007 to a current average of $4.76.

Cushman & Wakefield forecasts that the vacancy rates will increase during 2009 and the demand from tenants will remain at below average levels. Consequently, the competition between landlords will continue to drive down asking lease rates and increase lease concessions in favor of tenants who make lease commitments.

Based on the above analysis, it appears that the current market asking lease rate for a warehouse/light manufacturing property is under $6 per square foot per year and the median asking lease rate is $6.45 per square foot. Management should either renegotiate the Printing Services lease with the Landlord to, at a minimum, the median current asking price of $6.45 per square foot or less, or move to a more centrally located property that offers comparable space at a much lower lease rate.
Potential annual lease costs are as follow:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Lease Cost</td>
<td>$147,762</td>
</tr>
<tr>
<td>Renegotiated Lease Cost</td>
<td>$135,941</td>
</tr>
<tr>
<td>Median Pinellas County Lease Cost</td>
<td>$93,925</td>
</tr>
</tbody>
</table>

If we renegotiate the lease rate down to the median price of $6.45 per square foot, the County could potentially save $54,237 annually. However, this may not be agreeable to the current landlord, who is used to receiving the extra $54,237 annually.

During our review, we visited a number of comparable warehouses available for rent facilities that we determined would meet the needs of the Clerk’s Printing Services. For example, in the central Pinellas County area, the Internal Audit Division with the assistance of Printing Services management visited 8565 Somerset Drive in Largo. This property was built in 2004; it is fully air-conditioned, centrally located, offers grade and weather protected dock loading, 18 foot ceilings, 400 amps 3 phase electric, ample parking and is in excellent shape. It also contains an insulated ceiling which helps conserve energy. The property consists of 3 warehouse/manufacturing buildings and offers a total of 32,000 square feet at $5.95 per square foot per year triple net or $7.40 modified gross. Currently, there is a 9,000 square foot warehouse (includes 1,500 square foot office space) available for lease. The building in its current shape would perfectly fit Printing Services and would not require any build out.
The estimated cost to move Printing Services, including all heavy machinery, would be $21,100. Therefore, Printing Services would save $104,734 the first year and $125,834 per year each subsequent year.

**Cost Savings**

<table>
<thead>
<tr>
<th>Facility</th>
<th>Size</th>
<th>Cost per sq foot</th>
<th>Annual Lease Cost</th>
<th>Operational Costs (FY08)</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Print Shop</td>
<td>14,500</td>
<td>$10.19**</td>
<td>$147,762</td>
<td>$44,672</td>
<td>$192,434</td>
</tr>
<tr>
<td>Possible New Facility</td>
<td>9,000</td>
<td>*$7.40</td>
<td>$66,600</td>
<td></td>
<td>$66,600</td>
</tr>
<tr>
<td>Potential Savings</td>
<td>5,500</td>
<td>$2.79</td>
<td>$81,162</td>
<td>$44,672</td>
<td>$125,834</td>
</tr>
</tbody>
</table>

*Modified gross lease rate. In subsequent years, the lessee is responsible for a percentage of increases in building property taxes, insurance, utilities and other operating expenses. ** Rounded.
In the event Printing Services and Records Management merge with the Clerk’s Records Storage at 4400 118th Street in St. Petersburg and move to an existing, centrally located 13,750 square foot property available at the same location, the savings would be as follows:

<table>
<thead>
<tr>
<th>Facility</th>
<th>Size</th>
<th>Cost per sq foot</th>
<th>Annual Lease Cost</th>
<th>Operational Costs</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Facilities (Cumulative)</td>
<td>20,170</td>
<td></td>
<td>$186,582</td>
<td>$50,909</td>
<td>$237,491</td>
</tr>
<tr>
<td>Possible New Facility</td>
<td>13,750</td>
<td>$8.60*</td>
<td>$118,250</td>
<td></td>
<td>$118,250</td>
</tr>
<tr>
<td><strong>Potential Annual Savings</strong></td>
<td>6,420</td>
<td>$68,332</td>
<td></td>
<td>$50,909</td>
<td><strong>$119,241</strong></td>
</tr>
</tbody>
</table>

* The modified gross lease rate also includes the cost of build-out excluding vault. Rate is based on a five year lease agreement.

Even with the build-out cost (excluding vault) incorporated into the gross modified lease rate, the County could save $119,241 (less moving cost) per year. Additional savings would include lower transportation costs if Printing Services is moved to a central Pinellas County location closer to other County departments and offices. Potential savings on a five year lease would amount to $596,205 (less initial moving costs). Also, this property offers an additional 18,000 square feet of vacant office/warehouse space if the County decided to relocate and consolidate more of its operations in this central location.

The current Printing Services' lease conditions are unfavorable for the County and would lock in an exorbitant lease rate 37% higher than the current median asking triple net lease rate. In addition, the renewal would prevent Printing Services from moving into a more cost-efficient building for another three years. Consequently, the County would waste an estimated $357,723 in avoidable lease costs.

Since the 90 day period for submitting a non-renewal notice to the Landlord has already passed, the County would be obligated to settle the non-renewal with the Landlord or to lease the property for one additional year.

According to Pinellas County Real Estate Lease Manager, the Equis Corporation is currently working on a space study for building a centralized 90,000 square foot warehouse that would consolidate Printing Services and Clerk’s Records Management, among other departments. In 2006, Equis had already developed a strategic plan for developing new County facilities consisting of four solutions. The plan included merging Printing Services and Clerk’s Records Management into a 30,000 square foot warehouse. The cost for the four presented options ranged from $18,831,438, if the County continued to lease, up to $385,144,184, if the
County was to purchase and build on to an existing facility. The plan considered purchasing land in 2006 and moving County departments beginning in 2008 or in 2010 in case the County decided to build a brand new campus. Therefore, the timeline from the purchase to the move is, at a minimum, a 2 year period. Three years have passed since the plan was presented, and the County apparently has no current intentions to implement it. Due to the severe budget cuts and subsequent downsizing in staff and services, the plans to build new facilities had to be postponed. It is unclear at this point how soon the County will be able to revisit these plans. It may take 3 to 5 years or more before the County is in a position to invest millions of dollars to build new facilities. Therefore, it is imperative to take advantage of the current commercial leasing market conditions.

It is inefficient, costly and imprudent for any business to occupy warehouse that is larger than needed to conduct business and pay much more than feasible for the lease, utilities and maintenance of the property.

We suggest the Clerk’s Office, in cooperation with Real Estate Lease Management:

A. Renegotiate and renew the lease agreement for one year only.

B. Start the process to merge Printing Services, Records Management and Clerk’s Storage (upon its lease expiration in December 2010) in a centrally located, more affordable warehouse such as the property located at Somerset Drive or similar. This merge would potentially save the County $119,241 per year in lease and operational cost savings for the two facilities.

If you have any questions, please do not hesitate to contact me at 464-8371.

cc: Paul S. Sacco, Director, Real Estate Management