TO: The Honorable Chairman and Members
of the Board of County Commissioners

FROM: Ken Burke
Clerk of the Circuit Court
Ex Officio County Auditor

SUBJECT: Follow-Up Review to Audit of Lease Management

DATE: January 21, 2010

For your review and filing in the Official Records, I am enclosing a copy of the follow-up review dated January 21, 2010 on the above-referenced audit.

I hope you find this report helpful in ensuring Pinellas County government provides the best possible service to our citizens.

cc: Robert S. LaSala, County Administrator
Jim Bennett, County Attorney
Mark S. Woodard, Assistant County Administrator
David J. DelMonte, Lease Management, Real Estate Management Department
Paul S. Sacco, Director, Real Estate Management Department
Andrew W. Pupke, Manager, Facility Planning, Real Estate Management Dept.
Claretha N. Harris, Chief Deputy Director, Finance Division
Ernst & Young
FOLLOW – UP REVIEW
TO
AUDIT OF LEASE MANAGEMENT

Audit Services
Division of Inspector General

Ken Burke, CPA*
Clerk of the Circuit Court
Ex Officio County Auditor

Hector Collazo, Jr., CFE, CFS, CISA, CIG
Director, Audit Services
Inspector General/Chief Audit Executive
Division of Inspector General

Audit Team
Gregory McCullough, CPA*, CIA, CFE - Internal Auditor II
Ken Green - Senior Internal Auditor

January 21, 2010
REPORT NO. 2010-04

*Regulated by the State of Florida
January 21, 2010

The Honorable Chairman and Members
of the Board of County Commissioners

We have conducted a follow-up review of our audit of Lease Management. The objectives of our review were to determine the implementation status of our previous recommendations.

Of the three recommendations contained in the audit report, we determined that two have been implemented and one has been partially implemented. The status of each recommendation is presented in this follow-up review.

We appreciate the cooperation shown by the staff of Lease Management during the course of this review.

Respectfully Submitted,

Hector Collazo, Jr., Director
Audit Services, Division of Inspector General

Approved:

Ken Burke*, CPA
Clerk of the Circuit Court
Ex Officio County Auditor

*Regulated by the State of Florida
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INTRODUCTION

Scope and Methodology

We conducted a follow-up review of our audit of Lease Management. The purpose of our
follow-up review is to determine the status of previous recommendations for improvement.

The purpose of the original audit was to:

1) Determine if the County’s Space Plan is sufficient to support the needs of the County.
2) Determine if the County has a process in place to ensure that lease space is
   sufficiently utilized.
3) Determine if policies and procedures governing leasing activity are adequate and
   complete.
4) Determine if the County’s lease process has sufficient controls and approval
   procedures to ensure new and renewed leases are cost effective.

To determine the current status of our previous recommendations, we conducted an interview
with management to determine the actual actions taken to implement recommendations for
improvement. We performed limited testing to verify the process of the recommendations for
improvement.

Our follow-up audit was conducted in accordance with the International Standards for the
Professional Practice of Internal Auditing and the Principles and Standards for Offices of
Inspector General, and, accordingly, included such tests of records and other auditing
procedures, as we considered necessary in the circumstances. Our follow-up testing was
performed during the months of October and November, 2009. The original audit period was
October 1, 2006 through July 31, 2007. However, transactions and processes reviewed were
not limited by the audit period.

Overall Conclusion

Of the three recommendations in the report, we determined that two were implemented and
one was partially implemented. We commend management for implementation of most of our
recommendations and continue to encourage management to fully implement the remaining
recommendation.
Background

The Lease Management Division of the Pinellas County Facilities Management department is responsible for procurement of leases for the County that includes, but is not limited to, the Clerk, Board of County Commissioners (BCC), Sheriff, Supervisor of Elections, Tax Collector, Public Defender, State Attorney and Property Appraiser. Lease Management works with the departments on their lease needs, monitors when leases will expire, and handles the analysis, selection and negotiation processes.

In February 2006, the Board of County Commissioners adopted Alternative 2, a recommendation of the County Space Plan, prepared by an external contractor for selected sites that includes an objective to reduce dependency on external leases for Pinellas County facility needs. The Space Plan is not comprehensive in that it focuses on selected facilities and not the total County inventory. Lease Management has plans to complete a Master Space Plan incorporating the contractor’s recommendations and all other County owned and leased facilities. The Capital Improvement Plan (CIP) identified in the Space Plan is projected to be funded by Penny for Pinellas dollars that will be spent starting in 2010 through 2020.

As of the audit period, the portfolio of lease contracts consists of 44 leases totaling $6.2 million dollars annually.

The following is a list of leases:

<table>
<thead>
<tr>
<th>Lease Number</th>
<th>Landlord</th>
<th>Type of Lessor</th>
<th>User Department</th>
<th>Square Footage</th>
<th>Annual Rent</th>
<th>Rate/Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2007-0001</td>
<td>Avant Air</td>
<td>P</td>
<td>Sheriff</td>
<td>1,500</td>
<td>$ 11,844.00</td>
<td>$ 7.90</td>
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<tr>
<td>2 1992-36</td>
<td>Clearwater/St Pete</td>
<td>G</td>
<td>CJC Parking</td>
<td>596,772</td>
<td>193,952.04</td>
<td>0.325</td>
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<td></td>
<td>International Airport</td>
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<td>3 2006-0037</td>
<td>Pinellas County Ind. Dev.</td>
<td>G</td>
<td>Personnel</td>
<td>7,176</td>
<td>102,329.76</td>
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<td></td>
<td>Authority</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>4 2006-0008</td>
<td>Utilities Department</td>
<td>G</td>
<td>BCCIS</td>
<td>3,000</td>
<td>45,000.00</td>
<td>15.00</td>
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<td>5 2006-0007</td>
<td>Utilities Department</td>
<td>G</td>
<td>County Attorney</td>
<td>1,904</td>
<td>28,560.00</td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td>A.</td>
<td></td>
<td>Department</td>
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<td>Type of Lessor</td>
<td>User Department</td>
<td>Square Footage</td>
<td>Annual Rent</td>
<td>Rate/ Sq. Ft.</td>
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<tr>
<td>2002-0204</td>
<td>Make Us An Offer Four, LLC</td>
<td>P</td>
<td>Tax Collector</td>
<td>12,055</td>
<td>203,119.56</td>
<td>16.85</td>
</tr>
<tr>
<td>1993-0202</td>
<td>Make Us An Offer Four, LLC</td>
<td>P</td>
<td>Property Appraiser</td>
<td>3,605</td>
<td>55,299.12</td>
<td>15.34</td>
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<td>2005-0079</td>
<td>400 Cleveland, LLC</td>
<td>P</td>
<td>BCCIS Finance Internal Audit</td>
<td>28,698</td>
<td>451,993.44</td>
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<td>2005-0029</td>
<td>Belcher Commons, LLC</td>
<td>P</td>
<td>Human Services</td>
<td>20,447</td>
<td>319,441.20</td>
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<td>2005-0030</td>
<td>Belcher Commons, LLC</td>
<td>P</td>
<td>Human Services/Stars Program</td>
<td>2,694</td>
<td>42,026.40</td>
<td>15.60</td>
</tr>
<tr>
<td>2002-0215</td>
<td>I &amp; S Assoc. LLC d/b/a Plaza 300 A</td>
<td>P</td>
<td>Human Services/Stars Program</td>
<td>2,552</td>
<td>37,339.92</td>
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<td>2004-0022</td>
<td>Tarpon Ridge, Inc.</td>
<td>P</td>
<td>Sheriff</td>
<td>40,000</td>
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<td>2000-0261</td>
<td>Roosevelt Park, Ltd.</td>
<td>P</td>
<td>Justice &amp; Consumer Services</td>
<td>10,625</td>
<td>142,196.28</td>
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<td>2001-0203</td>
<td>DISI-JBE, LLC</td>
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<td>Tax Collector</td>
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<td>2001-0201</td>
<td>Manatee Village Investments, Inc.</td>
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<td>Tax Collector</td>
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<td>51,009.96</td>
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<td>2004-0069</td>
<td>Starkey Lakes, LTD</td>
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<td>Property Appraiser</td>
<td>4,807</td>
<td>61,197.00</td>
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<tr>
<td>1994-0225</td>
<td>Arthur H. &amp; Mary L. Bruno</td>
<td>P</td>
<td>Tax Collector</td>
<td>11,100</td>
<td>134,178.72</td>
<td>12.09</td>
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<tr>
<td>2002-0226</td>
<td>Zambito Enterprises, Inc.</td>
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<td>Tax Collector</td>
<td>25,015</td>
<td>299,596.08</td>
<td>11.98</td>
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<td>Lease Number</td>
<td>Landlord</td>
<td>Type of Lessor</td>
<td>User Department</td>
<td>Square Footage</td>
<td>Annual Rent</td>
<td>Rate/Sq. Ft.</td>
</tr>
<tr>
<td>--------------</td>
<td>----------</td>
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<td>----------------</td>
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<tr>
<td>21 1996-0214</td>
<td>E.V.K. Enterprises, Inc.</td>
<td>P</td>
<td>Sheriff</td>
<td>7,851</td>
<td>89,265.84</td>
<td>11.37</td>
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<tr>
<td>22 2003-0019</td>
<td>City of Dunedin</td>
<td>G</td>
<td>Sheriff</td>
<td>11,687</td>
<td>192,059.28</td>
<td>16.43</td>
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<tr>
<td>23 2000-0229</td>
<td>Pinellas County Housing Authority</td>
<td>G</td>
<td>Sheriff</td>
<td>2,800</td>
<td>28,139.64</td>
<td>10.05</td>
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<tr>
<td>24 2003-0061</td>
<td>New Plan Excel Realty Trust</td>
<td>P</td>
<td>Tax Collector</td>
<td>4,000</td>
<td>73,782.96</td>
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<td>25 2000-0206</td>
<td>Workman Properties, Inc.</td>
<td>P</td>
<td>Clerk/Print Shop</td>
<td>14,500</td>
<td>147,762.24</td>
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<td>26 2003-0145</td>
<td>HPD Starkey Lakes II, LLP</td>
<td>P</td>
<td>Supervisor of Elections</td>
<td>75,000</td>
<td>712,500.00</td>
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<td>27 1999-0215</td>
<td>118th Avenue North Land Trust</td>
<td>P</td>
<td>Clerk's Storage Warehouse</td>
<td>5,670</td>
<td>38,819.76</td>
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<td>28 1997-0225</td>
<td>Continental Business Dev.</td>
<td>P</td>
<td>State Attorney</td>
<td>42,250</td>
<td>233,742.00</td>
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<td>29 2004-0004</td>
<td>Norrie 14605 49th St. LLC</td>
<td>P</td>
<td>Sheriff</td>
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<td>10,492.44</td>
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<tr>
<td>30 2001-0211</td>
<td>Town of Indian Shores</td>
<td>G</td>
<td>Sheriff</td>
<td>1,680</td>
<td>13,440.00</td>
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<td>31 1997-0237</td>
<td>James B. Sanderlin Family Services</td>
<td>G</td>
<td>Social Services</td>
<td>381</td>
<td>2,886.00</td>
<td>7.57</td>
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<tr>
<td>32 2004-0075</td>
<td>St. Petersburg College</td>
<td>G</td>
<td>Economic Development</td>
<td>15,439</td>
<td>106,251.84</td>
<td>6.88</td>
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<tr>
<td>33 2005-0017</td>
<td>St. Petersburg College</td>
<td>G</td>
<td>CVB</td>
<td>14,426</td>
<td>99,278.04</td>
<td>6.88</td>
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<tr>
<td>34 2004-0076</td>
<td>St. Petersburg College</td>
<td>G</td>
<td>Arts Counsel</td>
<td>5,650</td>
<td>38,880.84</td>
<td>6.88</td>
</tr>
<tr>
<td>35 1997-</td>
<td>City of</td>
<td>G</td>
<td>Sheriff</td>
<td>6,789</td>
<td>23,110.32</td>
<td>3.40</td>
</tr>
</tbody>
</table>
## Follow-Up Audit of Lease Management

<table>
<thead>
<tr>
<th>Lease Number</th>
<th>Landlord</th>
<th>Type of Lessor</th>
<th>User Department</th>
<th>Square Footage</th>
<th>Annual Rent</th>
<th>Rate/Sq. Ft.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0214</td>
<td>Dunedin</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002-0202</td>
<td>Workman Properties, Inc.</td>
<td>P</td>
<td>Purchasing</td>
<td>6,725</td>
<td>48,988.08</td>
<td>7.28</td>
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<td>1998-0240</td>
<td>Clearwater/St. Pete Airport</td>
<td>G</td>
<td>Sheriff</td>
<td>56,660</td>
<td>18,415.00</td>
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</tr>
<tr>
<td>1986-210</td>
<td>Clearwater/St. Pete Airport</td>
<td>G</td>
<td>Clerks Records Storage</td>
<td>162,382</td>
<td>52,776.96</td>
<td>0.33</td>
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<td>1990-0209</td>
<td>Clearwater/St. Pete Airport</td>
<td>G</td>
<td>Sheriff</td>
<td>244,372</td>
<td>79,421.04</td>
<td>0.33</td>
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<td>1993-0053</td>
<td>Clearwater/St. Pete Airport</td>
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<td>Juvenile Assessment Center</td>
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<td>131,518.44</td>
<td>0.33</td>
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<tr>
<td>1998-0239</td>
<td>Clearwater/St. Pete Int'l</td>
<td>G</td>
<td>Fleet Mgmt. Substation</td>
<td>31,450</td>
<td>10,221.00</td>
<td>0.33</td>
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<tr>
<td>1980-525</td>
<td>Clearwater/St Pete Airport</td>
<td>G</td>
<td>CJC &amp; Jail</td>
<td>2,156,97</td>
<td>701,016.12</td>
<td>0.33</td>
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<td>1999-0212</td>
<td>Clearwater/St Pete Airport</td>
<td>G</td>
<td>General Services Dept.</td>
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<td>18,044.04</td>
<td>0.33</td>
</tr>
<tr>
<td>2001-0204</td>
<td>TIIF</td>
<td>G</td>
<td>Conservation &amp; Protection</td>
<td>14,426</td>
<td>300.00</td>
<td>Admin Fee</td>
</tr>
</tbody>
</table>

**Type of Lessor:**

- G = Government
- P = Private

**Total** $6,209,206.72
STATUS OF RECOMMENDATIONS

This section reports our follow-up on actions taken by management on the Recommendations for Improvement in our original audit of Lease Management. The recommendations contained herein are those of the original audit, followed by the current status of the recommendations.


Lease Management’s lease files do not contain documentation to support the analysis that will ensure the County receives cost effective market pricing for new and renewed County leases. Of the 12 lease files reviewed in our sample, 11 files did not have adequate support for a "Fair Lease Pricing" analysis. Because of the documentation deficiency, we could not determine if Lease Management’s current procedures produce the fair market value for County leases. “Fair Lease Pricing” is the analysis work performed to determine if the lease price that the County is receiving is the fair market value as it pertains to the procurement process.

Most of the documentation in the lease files begins after the leased property is selected rather than during the procurement process. The most effective process that can be used to evaluate the lease pricing differs depending on the three general types of leases for the County (see Chart No. 1 below). Lease Management has the option of using the best tools to determine “Fair Lease Pricing” for their lease evaluation and negotiations. Lease Management states that they use several tools to ensure the County is receiving fair market value pricing, but the methods used are not documented.

The Lease Management process normally does not use competitive bidding or a Request for Proposal in obtaining leases. In contrast, the State of Florida considers leasing of facilities a procurement process; therefore, the procedures reflect the standard competitive process. This type of procedure would encourage fair competition and provide leverage for the lease negotiation process.

There are three general categories of leases in the Lease Management portfolio that were reviewed:

- Properties that are owned by other governments
- Properties used as warehouse space
- Properties used for office space

Chart No. 1 below is a summary of the types of leases and the price range included in our audit sample.
The lack of formal written procedures to guide the procurement process contributes to internal control weaknesses related to "Fair Lease Pricing" documentation. We agree with Lease Management’s belief that different methods are required to analyze "Fair Lease Pricing" depending on the individual lease. This factor reinforces the need for proper documentation of the price evaluation process since the methods can differ. In our discussion, management stated that the needed "Fair Lease Pricing" analysis was performed; however, this information was not always documented in the lease files. Management agrees that documentation provides a permanent record explaining the decisions reached. However, Management does not agree that creating documents outlining thought processes, strategies and negotiations is relevant or beneficial. Documenting due diligence of a procurement process should not be an option, but a requirement of the County. Documentation of the process, research, and positions can help protect the County and its employees should a question later occur.

Without a strong documentation process to determine if "Fair Lease Pricing" is received and fair competition is maintained, the County cannot provide assurance that the negotiated lease is fairly priced and due diligence is sufficiently performed and effective. In addition, without documentation of work performed, no assurance is provided that due diligence was performed in the procurement process. The uniform documentation of the procurement process needs to be maintained to reduce the appearance and opportunity for favoritism and inspire public confidence.

We Recommend management establish formal written procedures for the lease procurement process that include, but are not limited to, the documentation of the procurement process that covers due diligence for the "Fair Lease Pricing" analysis (i.e., market survey of comparable properties, property selection and negotiation proceedings) for new and renewal of County leases.
Status:

Implemented. Management has developed a formal written procedure for securing lease space. The procedure includes the completion of a leased space matrix to provide a summary of the comparable properties reviewed for a selected lease need and relevant pricing information for each. It also includes a negotiation checklist to document negotiation issues. The procedure states both forms should be made part of the permanent lease file along with other pertinent backup information.

2. The Impact Of Tenant Improvement Costs On Lease Pricing For Lease Renewals Are Not Adequately Documented In The Lease Management Files.

The impact of tenant improvement costs contained in the original lease agreement may not be considered in lease pricing of subsequent renewals. We noted in Opportunity for Improvement No. 1 that Lease Management is not adequately documenting the "Fair Lease Pricing" analysis for new leases and subsequent renewals. Two leases in our sample review did not have adequate documentation in this area which may affect the renewal pricing. Both leases are for Clearwater-Gardens Towers; the first lease is occupied by Community Development and the second lease is occupied by the Planning Department. The terms of the leases are five years with an additional five year renewal option. The tenant improvement costs (build-out costs) contained in the start-up lease has a five year amortization schedule that allows recovery of the "build-out cost" upon early cancellation of the lease by the County. The lease agreement contains a rate structure that increases the lease price each year. The end lease price of the first five years of the agreement is the starting price of the first renewal option of the lease (with an annual adjustment).

Since the landlord paid the tenant improvement costs for the office space, it is logical to assume that the landlord is recovering some part, or all of the costs over the first five year period. Since Lease Management is not documenting the "Fair Lease Pricing" analysis in the original lease files, we cannot determine if the tenant improvement costs of $374,010 for these two contracts were considered in the renewal negotiations or overlooked in the process.

To determine the possible risk impact of the two leases, we reviewed the current pricing of each lease located in the Bank of America Building as follows: Lease No. 1997-0244 for Community Development with the current rate of $18.39 per square foot, and Lease No. 2001-0231 for the Planning Department with the current rate of $18.50 per square foot. As of April 2007, the Maddux Report published rental costs of $14 to $18 per square foot for the Bank of America building; therefore, the County is paying a top of the scale price for lease space in the Bank of America building. Although tenant improvement costs were paid by the landlord, the lease file documentation does not indicate that the higher base rent rate was influenced by the "build-out costs." Lease Management may be justified in paying the current lease price, but the documentation in the lease files does not supply support for the pricing.
Adjusting a lease renewal for "build-out costs" after the first five year time frame is part of unwritten procedures and was present in the County’s lease for the Tarpon Springs Tax Collector’s Office. The renewal included a lease reduction based on amortized "build-out costs" of the start-up lease. As of May 2007, the rate was reduced by $2.25 per square foot (from $15.20 per square foot to $12.95 per square foot) to adjust for amortized build-out costs included in the original lease price. This rate was renegotiated and revisited at the time of renewal even though nothing in the original lease obligated the landlord to adjust the rate at the renewal period.

The renewal of leases in a procurement process should ensure the County is receiving market value for the lease pricing. As in new leases, Lease Management has several options to determine "Fair Lease Pricing" that includes use of benchmarks, comparable leases, market quotes and publications. The evaluation process and results must be adequately documented to support due diligence of the process.

Because of the lack of documentation and a lack of decrease in lease rates, we are unable to determine if the County received credit for $374,010 spent in improvements for these two contracts.

**We Recommend** management establish formal written procedures for the lease procurement process and lease renewal. These should include, but not be limited to, the documentation of the procurement process that covers due diligence for the "Fair Lease Pricing" analysis for County leases including the impact of tenant improvement costs.

**Status:**

Implemented. Management has developed a formal written procedure for securing lease space. The procedure includes the completion of a leased space matrix to provide a summary of the comparable properties reviewed for a selected lease need and relevant pricing information for each. It also includes a negotiation checklist to document negotiation issues. The procedure states that the negotiation checklist should document that specific topics were addressed and that consideration was given to important topics such as amortized improvements as it relates to the rental rate during any renewal periods. The Negotiation Checklist includes areas related to Tenant Improvements. The procedure also requires that the matrix, lease negotiation checklist and all backup information, such as maps, proposals and other pertinent information, be maintained in the permanent lease file.

**3. Lease Management Has Not Completed A Formal Comprehensive Master Space Plan For The County.**

The Lease Management division does not have a comprehensive Countywide Master Space Plan that incorporates the February 2006 Space Plan recommendations (by the external contractor) and the current Alternatives adopted by the Board of County Commissioners. However, the Lease Management Division's current lease tracking system gives sufficient time
to handle expiring and renewing leases to ensure continued County operations. Management stated that they are in the process of developing such a plan for the County that will incorporate the selected County Space Plan Alternative.

The adopted Countywide Space Plan, Alternative 2, contains several risk factors that will affect the development of the County's future leased and owned property needs. The factors listed below should be considered in developing the comprehensive Countywide Master Space Plan:

- The Space Plan does not contain, and did not require, a cost justification analysis by campus that includes a lease vs. owned benefit, maintenance/repair cost, operational effectiveness gains, benefits and projection of a break even point vs. construction.
- The consultant's plan only covers leased and owned sites that are related to the departments considered in the plan; therefore, not all leased and owned sites have been addressed.
- The contractor's space plan was completed in February 2006; however, key factors have changed. The plan projects County staff growth from 10% to 17% for the departments considered in the consultant's plan. This growth may no longer be considered realistic with the current budget restraints for the County.
- The projected costs were developed using a start date of 2007, but there is only a small part ($11 million) of the construction included in the Capital Improvement Plan (CIP) for 2008 to 2010. Projected costs may no longer be valid.
- The major part of the funding for the Alternative 2 plan is part of the projected use of the 2010 to 2020 Penny for Pinellas sales tax. The major CIP projects included in the baseline are Public Safety Facilities and Central Communication Center, and the Public Works Emergency Responders Building.

The Countywide Master Space Plan should support an overall plan for need and use of leased and owned properties to project the requirements to afford the proper time to obtain market pricing for the leases and other space needs.

**We Recommend** management complete the Countywide Master Space Plan incorporating the options included in the 2007 Space Plan Alternative.

**Status:**

Partially Implemented. Management stated the Countywide Master Space Plan is a living document and a work in progress. They stated that the Space Consolidation Plan (resulting from the reduction in force) is considered a transitional step between the present case and the "Countywide Space Strategic Plan." However, they stated this Space Consolidation Plan document is not yet complete. In addition, they stated that there are presently active initiatives which are shaping the "space plan." Some elements of the plan appear to be partially implemented as the inventory list of County buildings is partially complete (does not appear to include all leased properties, but includes owned properties) and it appears five active projects (initiatives) are in process (either in construction, design criteria, or study phase).