

**National Association of State Chief Administrators
2001 Outstanding Program Award
Application Form for Public/Private Partnerships**

1. Program Name

◆ Leased to Own Project

2. Administering Agency

◆ Arizona Department of Administration: General Services Division

3. Contact Person (Name and title)

◆ Robert C. Teel, Assistant Director

4. Address

◆ 15 South 15th Avenue, Suite 101, Phoenix, Arizona 85007

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8. Description of the program

◆ The Privatized Lease-to-Own (PLTO) program is the financing, design, construction, operation and maintenance of state office buildings on state land in the Arizona Capitol Mall by a private development team. The private developer will lease the new office buildings to the State of Arizona below the cost of current state appropriations necessary to lease private sector office space, and the state will own the buildings at the end of the 20-25 year lease.

9. How long has this program been operational (month and year)?

◆ The Request for Proposal went out December 9, 1999. Two authorized PLTO state office buildings totaling 485,000 square feet are presently under construction. They will be finished in July 2002.

10. Why was this program created? (What problem (s) or issue (s) was it designed to address)?

◆ Office space on the Capitol Mall has been 99.5 % occupied for the last 5 years. Between February 1996 and October 1999, 20 agencies were moved off the Mall into private lease space in 34 different locations, fragmenting operations, delivery of service to the public, and increasing operating costs. \$70 million had been spent over the previous 10 years on private space leases with no residual value to the State. The Legislature was reluctant to issue Certificates of Participation, and other demands on state resources limited the availability of capitol appropriations to construct office buildings. **The challenge was to improve delivery of services to the public through "one stop shopping" and lower operating costs by consolidating agencies back on the Capitol Mall with no capital appropriation or increase in lease rates.**

11. Describe the specific activities and operations of the program in chronological order.

Request for Proposals issued	Dec 9, 1999
Proposals received	Jan 6, 2000
Senate Bill 1063 approved	Apr 5, 2000
Developer selected for negotiations	May 1, 2000
State and developer agreed to transaction terms	Jun 2, 2000
Legislative Joint Committee on Capital Review	
Approves ADOA to proceeding with PLTO	Jun 20, 2000
Lease contract signed	Nov 28, 2000
PLTO buildings groundbreaking	Feb 2, 2001
Projected construction completion	Jul 1, 2002
State agency relocations complete	Sep 15, 2002
First state lease payment to Lessor/developer	Oct 1, 2002

12. Why is this program a new creative approach or method

- ◆ PLTO is new and creative because it contains a number of unique features. These include:
 - The developer obtains the project financing, - not the state. The bonds are **not** backed by the full faith and credit of the state. Therefore, they do not *affect* the State's borrowing capacity.
 - The lease contains an opt-out provision if funding for lease payments are not appropriated by the Legislature.
 - No capital appropriation is required. Current agency lease appropriations are used for PLTO lease payments.
 - The annual M service lease costs for PLTO are less than current private sector lease costs.
 - The state will gain a \$100 million capital asset on the Capitol Mall at the end of the *lease term*, without a capital appropriation
 - Privatization of all facilities management issues including *full funding* for building renewal is included in the lease which ensures the buildings will be in excellent condition when the State takes ownership.
 - Private development is on state owned land on the Capitol Mall, with the land leased to the developer for the period of the purchase agreement

13. What was the program's start up costs? (Provide detail about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology, and staff already in place)

- ◆ The start-up costs included an allocation of \$25,000 from the General Services operating funds to conduct title work for the lease contracts. All work for the project was accomplished using existing staff levels.

14. What are the program's annual operational costs?

- ◆ The annual operations and maintenance costs are \$2,300,000 per annum and increases by 2.5% per year. This also includes all building renewal costs for the buildings over the term of the lease. This translate into \$4.75 per square foot for full service.
- ◆ All costs for relocation, fixtures, furniture and equipment are covered under the annual lease cost.
- ◆ No additional operating funds will be required. The full service lease cost for the two buildings will cover all operating costs. There will be a \$370,000 annual savings in for lease payments alone. The tenants anticipate additional savings in telephone and data costs, administrative support, travel reduction, etc. It is projected that over the term of the lease the State of Arizona will save over \$11.2 million in lease costs and own two office buildings presently valued at \$76 million.

15. How is this program funded?

- ◆ The PLTO program is funded through existing state agency's annual lease appropriations for office space.

16. How many state employees (full-time equivalent) work with this program?

◆ There are 5 FTE's who coordinate activities with the developer, communicate with stakeholders and respond to legislative concerns during the planning, design, construction and relocation phases. The PLTO project will provide office space for approximately 1,800 state employees.

17. Did this program require the passage of legislation, executive order or regulations? If yes, please indicate the citation number.

◆ The PLTO program was authorized in FY 2000 through Senate Bill 1063, Laws 2000, Chapter 164. It was approved in the House of Representatives by a vote of 57-0, approved in the Senate by a vote of 28-0 and signed by the Governor.

18. What equipment, technology and software are used to operate and administer this program?

◆ There is no special equipment, technology or software used to operate or administer this program.

19. To the best of your knowledge, did this program originate in your state? If yes, please indicate the innovators name, present address and telephone number.

◆ We are not aware of any other state that has implemented the Privatized Lease-to-Own program as we have structured it. Major developers and national financial lending institutions indicated it to be a unique approach. They had not done a similar project. The impetus behind the project is Robert Teel, Assistant Director in the Department of Administration. He is located at 15 South 15th Avenue, Phoenix, Arizona 85007. (602) 542-1920.

20. Are you aware of similar programs in other states? If yes, which ones and how does this program differ?

◆ We are not aware of similar programs in other states.

21. Has the program been fully implemented? If no, what actions remain to be taken?

◆ The PLTO state office buildings are presently under construction and are scheduled to be completed in July 2002. State agencies will be relocated to the new buildings between July and September 2002.

22. Briefly evaluate (pro and con) the program's effectiveness in addressing the defined problems) or issue(s). Provide tangible examples.

Benefits:

- Better service to the public (one-stop-shopping-service) at lower operating costs.
- Ownership of buildings at end of lease. Lease cost saving of \$300,000 per year.
- No capital appropriation required.
- Consolidating agencies on the Capitol Mall will lower operating costs.
- The Arizona Department of Environmental Quality will be consolidated from its present five lease locations to a single building on the Capitol Mall. The Arizona Department of Administration will be consolidated from six different locations to one building on the Capitol Mall.

Disadvantages:

- Savings would be greater if the project were funded up front with a capital appropriation because it would save the financing costs.

23. How has the program grown and/or changed since its inception?

◆ The program has not changed since its inception in FY 2000. However the program is being expanded and a second PLTO project is being addressed in the legislature at the time of this submission.

24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

- The PLTO program requires a radical change in the traditional process of project delivery. The program does not use the traditional process of selecting an architect to design the facility then issuing an Invitation to Bid (ITB) to a general contractor to build the facility with award based on low price.
- The PLTO program utilizes a two step "Request for Proposal" (RFP) process. The first step of the RFP requires prospective development teams to submit proposals for facilities that meet state provided *building performance specifications*, including construction cost estimates, lease cost options, operation and maintenance costs, building floor plans, elevations and building renderings. The responding development teams are responsible for all costs in developing their proposals. The selection process is based upon best value over the term of the lease as opposed to low bid. The Developer/Lessor is responsible for providing the state a "full service" lease at identified costs over the term of the lease, at an annual cost such that the state owns the building at the end of the lease period. The enabling legislation had to allow for this approach.
- Other challenges included the development of a first time contract for the project. There was no standard contract that we could find to follow.
- The State of Arizona is happy to share our process with any interested party. To date, the PLTO program has been a roaring success and it continues to be a situation where:

**The State of Arizona Wins
The Private Sector Wins
And most important, the Taxpayers Win**