AUDITOR GENERAL

WILLIAM O. MONROE, CPA

EVALUATION OF COST BENEFIT ANALYSIS

LEASE PURCHASE OF DEPARTMENT OF CORRECTIONS ADMINISTRATION BUILDING

SCOPE, OBJECTIVES, AND METHODOLOGY

This report presents the results of our evaluation of the Department of Corrections' cost benefit analysis and determination as to whether a lease purchase of the administrative headquarters building of the Department of Corrections is in the best interest of the State. In conducting our audit we discussed the lease purchase proposal with representatives of the owner of the building, the Department of Corrections, the Department of Management Services (which assisted the Department of Corrections in conducting the cost benefit analysis), and a consultant employed by the Department of Management Services to provide an analysis. We reviewed all of the reports relied upon by the Department of Corrections in conducting the cost benefit analysis.

To promote accountability and improvement in government operations, the Auditor General makes audits of programs, activities, and functions of governmental entities. This audit was made in accordance with ***Government Auditing Standards*** issued by the Comptroller General of the United States. This audit was coordinated and supervised by Walter L. Roche. Please address inquiries regarding this report to James M. Dwyer, CPA, Audit Manager, via E-mail at jimdwyer@aud.state.fl.us or by telephone at (850) 487-9031.

This report, as well as other reports prepared by the Auditor General, can be obtained on our Web site (http://www.state.fl.us/audgen); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

EVALUATION OF COST BENEFIT ANALYSIS LEASE PURCHASE OF DEPARTMENT OF CORRECTIONS ADMINISTRATION BUILDING

TABLE OF CONTENTS

EXECUTIVE SUMMARY

As required by proviso language for Specific Appropriation 633 in Chapter 2003-397, Laws of Florida, we have evaluated the cost benefit analysis provided by the Department of Corrections (DOC) regarding a lease purchase proposal made to DOC by the owner of the Blairstone Building where DOC's administrative headquarters is currently located. DOC's evaluation was based on an analysis performed by the Department of Management Services' leasing consultant, The Staubach Company. DOC concluded that, in view of concerns with maintenance issues and the overall purchase price, the lease purchase of the Blairstone Building is not in the best interest of the State and recommends not accepting the lease purchase proposal.

Based on the cost benefit analysis provided by DOC, and our review of the reports and other information provided with the analysis, we concur with DOC's determination that the lease purchase agreement, as proposed, is not in the best interest of the State. We believe that the proposal should be considered in the light of current rental market conditions, as well as other options available to DOC.

BACKGROUND

The administrative functions of the Department of Corrections (DOC) are currently located in a leased facility on Blairstone Road in Tallahassee. This facility consists of three interconnected buildings, collectively referred to as the "Blairstone Building." The first building was constructed in 1990 and the facility has been occupied by DOC since then. DOC currently has two rental agreements with the owner, one for 211,979 square feet, expiring December 31, 2009, and the other for 41,545 square feet, expiring December 31, 2004. Both leases have options to extend through December 31, 2014.

On November 15, 2001, the owner of the Blairstone Building provided DOC with a proposal that the State enter into a lease purchase agreement with the owner to acquire the Building. A revised proposal was provided to the DOC on July 15, 2003 (Exhibit A). Under the revised proposal, the terms of the leases would be extended to December 31, 2023, and the State would have an option at the end of the 20-year lease term to purchase the building for $1.00. The State would pay no rent for the first year of the agreement and the rent for the remaining years would be locked in at $17.39 per square foot. The transaction would be funded through the issuance of certificates of participation (COP) issued by a non-profit entity created as an instrumentality of the State. Moneys provided by the issuance of COPs would fund the acquisition of the Blairstone Building at $41.5 million, issuance costs of $863,502, a debt service reserve of $4.283 million, a capitalized interest fund of $2,586,750, and a $2.5 million capital maintenance reserve. The proposal also included a $.50 per square foot rental fee to provide an additional $2.52 million for the capital maintenance reserve. Under the proposal, the capital maintenance reserve would fund building maintenance during the lease term.

The 2003 General Appropriations Act (Chapter 2003-397) provided that:

> "From funds appropriated in Specific Appropriation 633, the Department of Corrections, in consultation with the Auditor General, shall conduct a cost benefit analysis and evaluate whether a lease purchase of the administrative headquarters building of the Department of Corrections in Tallahassee, Florida is in the best interests of the State. The Auditor General shall report to the Joint Legislative Auditing Committee its evaluation by December 1, 2003."

DOC requested and received assistance from the Department of Management Services (DMS) in conducting the cost benefit analysis. DMS utilized the services of its consultant, The Staubach Company, to provide the requested assistance. The Staubach Company provided a report on the proposed lease purchase arrangement to DOC. DOC's cost benefit analysis and evaluation (Exhibit B), which included the report from The Staubach Company (Exhibit C), was provided to us on November 19, 2003.

Cost Benefit Analysis Results

Issues raised in the report provided to DOC by DMS consultant, and relied upon by DOC in evaluating the proposal, are summarized in the following paragraphs.

Proposed Cost Savings

The owner has identified savings in rent payments of $26 million over the term of the lease; however, it is unlikely that such savings would be realized, as the $26 million savings estimate:

- May not provide for adequate funding of the costs assumed by DOC under the proposal, which provides that DOC will assume all operating expenses and building maintenance costs. The proposal provides for a $2.5 million capital maintenance reserve and a $.50 per square foot rental fee to be paid into the reserve to provide for the payment of maintenance expenses, with no increase to provide for rising costs as the building ages. The adequacy of this reserve, which totals approximately $5 million, is questionable (see the discussion under Building Design, below).

- Presumes that, if the lease purchase agreement were not consummated, DOC would remain as tenants through 2023 at rental rates that continue to rise as provided for in the rental escalation clauses in the existing leases and options periods, which expire in 2014, and then remain level through 2023.

Based on prevailing rental rates in Tallahassee, it is probable that DOC could negotiate rates more favorable to DOC upon the expiration of the current leases. The leases on the Blairstone Building are currently at $15.50 and $16.40 per square foot, with scheduled annual increases of 2 to 3 percent through the end of the lease periods. According to the Department of Management Services, the current average non-full service lease rate for governmental leases in privately owned buildings in Leon County is $12.70 per square foot. DMS notified the owner of the disparity between this rate and the Blairstone Building lease rates on May 1, 2003. The owner responded with the initial lease purchase proposal, which has been amended twice. As indicated previously, the current leases expire in 2004 and 2009; however, when the prevailing rates drop below the contracted lease rate, the State customarily seeks adjustment of the rate by the lessor. The Blairstone Building lease agreements provide that the State can terminate the leases with a six months notice in the event a State owned building becomes available and that the State's performance under the lease agreement is contingent on an annual appropriation by the Legislature.

The consultant concluded that because the State dominates the market in Tallahassee for the lease of commercial office buildings, the market value of the Blairstone Building would be diminished if DOC did not continue to occupy it and the State is in a position to negotiate more favorable terms than is presented in the lease purchase proposal.

Building Design

The Blairstone Building has design issues that limit its desirability as a location for DOC administrative headquarters beyond the end of the current lease terms. For example, the current heating, ventilating, and air conditioning (HVAC) system is comprised of over 263 individual residential units, as opposed to a central chiller system, which is commonly used in newer buildings. Each unit requires periodic maintenance which under the proposal would be the responsibility of DOC. The consultant estimated the cost to convert the building to a central chiller system at $8 million.

Other Available Facilities and Financing Options

While the consultant acknowledged that a lease purchase contract is an acceptable method of reducing costs for the State when the purchase price is consistent with market conditions, there are options available to DOC for the future housing of its administrative headquarters that would be more cost effective and provide newer and more efficient facilities that are more compatible with DOC's needs. These options include other available office rental space in Tallahassee and the construction of facilities under the auspices of DMS.

Using an 8 percent discount rate, the consultant established the present value of the lease purchase proposal at $57,812,828. Based on a construction cost per square foot estimate of $125, provided by DMS, and a restructuring fee of $5 per square foot, the consultant estimated a current replacement cost of $32,958,120 for a prototype building of the same size as the Blairstone Building, considering construction methodologies currently used by DMS. Using the same discount rate for comparison purposes and a 4 percent cost of capital (bond financing rate), the consultant calculated the following present values under various assumptions for the construction of a facility suited to the needs of DOC:

Assumption	Present Value	Savings (as % of Lease Purchase Proposal Present Value)
Owner's Lease Purchase Proposal	$ 57,812,828	-----
Build to Suit after 2 Years at 4% Cost of Capital	44,737,262	22.6%
Build to Suit at Lease Expiration at 4% Cost of Capital	51,141,443	11.5%

The consultant reported that the recently constructed facilities at Southwood in Tallahassee, with efficient mechanical systems and enhanced infrastructures is less expensive ($130 per square foot) than the proposed lease purchase price ($164 per square foot). The bond financing rate utilized by the consultant appears reasonable in view of rates of recent State bond issues. The consultant concluded that the State can build a higher quality, more efficient building with the savings identified in the above schedule.

Department of Corrections Conclusion

DOC concludes that, in view of concerns with maintenance issues and the overall purchase price, the lease purchase of the Blairstone Building is not in the best interest of the State and recommends not accepting the lease purchase proposal (Exhibit B).

Conclusion

Based on the cost benefit analysis provided by DOC, and our review of the reports and other information provided with the analysis, we concur with DOC's determination that the lease purchase agreement, as proposed, is not in the best interest of the State. We believe that, at a minimum, the proposal should be considered in the light of current rental market conditions and renegotiated to provide for terms more favorable to DOC; however, prior to entering into any lease purchase agreement for the Blairstone Building, DOC should consider other available options, including renegotiating the current leases, renting other currently available facilities in Tallahassee and seeking construction of a facility specifically to meet DOC's current and future needs.

RESPONSE
DEPARTMENT OF CORRECTIONS

FLORIDA
DEPARTMENT of
CORRECTIONS

Governor
JEB BUSH

An Equal Opportunity Employer

Secretary
JAMES V. CROSBY, JR.

2601 Blair Stone Road Tallahassee, FL 32399-2500

http://www.dc.state.fl.us

December 15, 2003

William O. Monroe
Auditor General
G74 Claude Pepper Building
111 W. Madison
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

The Department received the preliminary evaluation for the lease-purchase proposal for the administrative headquarters building of the Department of Corrections. We concur with the conclusions reached in this preliminary evaluation. The Department appreciates the assistance provided through this process.

If you have any questions, please advise.

Sincerely,

Richard Prudom, Director
Office of Financial Management

RP/JF/cw
cc: C. George Denman, Deputy Secretary
Janie Flack, Statewide Leasing Manager
file

RESPONSE
DEPARTMENT OF MANAGEMENT SERVICES

FLORIDA DEPARTMENT OF
MANAGEMENT SERVICES

MyFlorida.com

JEB BUSH
Governor

WILLIAM S. SIMON
Secretary

December 12, 2003

Mr. William O. Monroe, Auditor General
Office of the Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

RE: Auditor General Evaluation of the Department of Corrections' Cost Benefit Analysis of a Proposed Lease Purchase of the Blairstone Building.

Dear Mr. Monroe:

The Department of Management Services has reviewed the Department of Corrections analysis as well as the Auditor General's opinion regarding the Proposed Lease Purchase of the Blairstone Building and concur with both findings. In light of concerns with maintenance issues and the overall purchase price, the lease purchase of the Blairstone Building is not in the best interest of the State and DMS recommends rejection of the lease purchase proposal.

If the Department of Management Services can be of additional assistance please do not hesitate to contact me at 850.488.2074.

Best regards,

Lee Ann Korst

Lee Ann Korst, Director
Facilities Management
and Building Construction

LAK:kp

Enclosure

Division of Facilities Management and Building Construction
4030 Esplanade Way, Suite 380, Tallahassee, Florida 32399-0950
Telephone: 850-488-2074 • Fax: 850-922-5844

RESPONSE
CAPITAL REALTY & INVESTMENT COMPANY

CAPITAL REALTY
& Investment Company

John G. "Chip" Dicks, President

December 12, 2003

William O. Monroe
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: Proposed Lease Purchase of the Blairstone Building

Dear Mr. Monroe:

Thank you for your letter dated November 25, 2003.

Blairstone Properties, L.L.C., of which I am President, is the owner of the Blairstone Building. We have spent the last three years working with the State to evaluate whether a lease purchase would be in the best interests of the State. During this period, we engaged two separate consultants who each concluded that a lease purchase as outlined in our proposal, provided significant benefits to the State. As part of the Department of Management Services ("DMS") evaluation, we engaged three appraisers who completed appraisals of the current market value of the property and further engaged one of those appraisers to evaluate the market value of the property if the lease purchase were to be implemented.

In addition, at the request of DMS, we submitted the Blairstone Building to an extensive DMS "facilities audit", which occurred on April 15, 2002. The DMS "facilities audit" evaluated the property as if DMS was going to purchase the property, which included upgrading a number of items to current Building Code standards. During the next twelve-month period, we addressed each of the items identified in the "facilities audit" and obtained a "sign off letter" from DMS in March, 2003, indicating that all facilities issues had been addressed to the satisfaction of DMS.

While we may disagree with the conclusion reached by the consultant engaged by DMS and as stated in your preliminary evaluation, we respect the process and that fact that the State has reached a different conclusion regarding the merits of our lease purchase proposal. As such, we hereby withdraw our lease purchase proposal from further consideration.

1015 East Main Street, Third Floor | Richmond, Virginia 23219
888-252-6299 | 804-225-5506 | 804-225-5508 fax
chipdicks@capitalric.net | www.capitalric.net

RESPONSE
CAPITAL REALTY & INVESTMENT COMPANY
(CONTINUED)

William O. Monroe
December 12, 2003
Page 2

We value our relationship with the Department of Corrections and look forward to continuing to provide a high quality office environment for our tenant. Please do not hesitate to contact me if there are any questions.

With warm regards, I am,

Very truly yours,

Chip Dicks

John G. "Chip" Dicks

Exhibit A

The Blairstone Building Lease Purchase Proposal

The Blairstone Building Lease Purchase Proposal

Package

for the

Department of Corrections

and

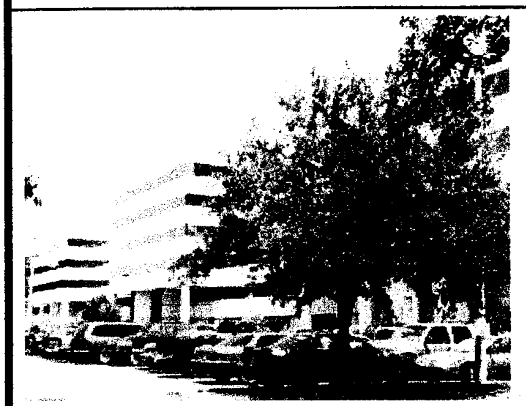
Auditor General

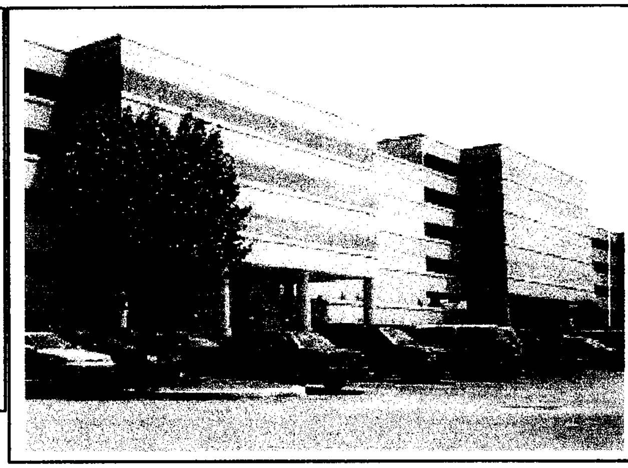
July 15, 2003

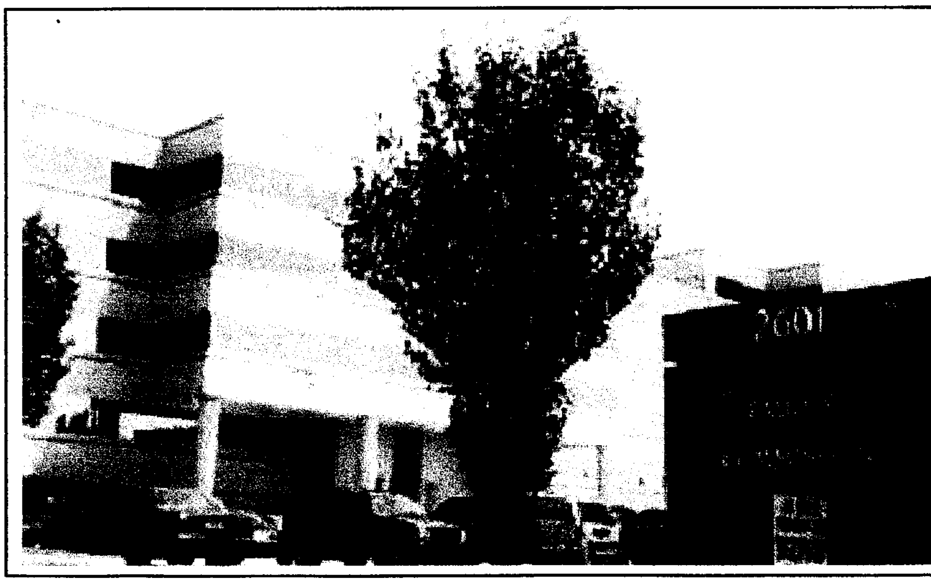
LEASE PURCHASE PROPOSAL

FOR

DEPARTMENT OF CORRECTIONS HEADQUARTERS BUILDING







2601 Blairstone Road

TABLE OF CONTENTS

The Blairstone Building Lease Purchase Proposal

Executive Summary

Background.

The Owner of the Department of Corrections ("DOC") Headquarters Building (the "Building") submitted a proposal ("the Proposal") to the Legislature to re-structure the two current leases for the Building at 2601 Blairstone Road, Tallahassee, Florida, into a single lease purchase agreement. The lease purchase proposal would extend the term of the existing leases from December 31, 2014 to December 31, 2023.

As part of the legislative consideration of the Proposal, the DOC indicated that it had a long term commitment to the Building and was interested in pursuing the Proposal. The Legislature decided that it would be beneficial for the DOC, along with the Auditor General, to conduct a cost-benefit analysis and determine whether the Proposal was in the best interests of the State.

The Budget Proviso Language.

The Budget included proviso language which provides as follows:

"From the funds in Specific Appropriation 633, the Department of Corrections, in consultation with the Auditor General, shall conduct a cost benefit analysis and evaluate whether a lease purchase of the administrative headquarters building of the Department of Corrections in Tallahassee, Florida is in the best interests of the State. The Auditor General shall report to the Joint Legislative Auditing Committee its evaluation by December 1, 2003."

The DOC Administrative Headquarters Building.

The Building was a "build-to-suit" for the Department of Corrections (DOC). Building A opened in 1990 and Buildings B and C were built in 1994 to accommodate expansion of the DOC. In 1999-2000, an additional 8,848 square feet of office space was enclosed from Building A parking area. There is a total of 253,524 square feet of rentable space within the Building.

The Building has its own parking deck and exterior parking fields to provide sufficient parking to accommodate the needs of the DOC. An environmental report has confirmed there are no hazards on the Property. A roofing report confirmed the roof is in good shape and Trane has been engaged by the Owner to maintain the HVAC infrastructure at the Building. In this regard, DMS completed an energy analysis and confirmed that the Building meets energy efficiency goals for state buildings.

DMS Has Completed the Facility Assessment on the Building.

The DOC requested that the Department of Management Services (DMS) conduct an overall facility assessment of the Building, which was done on April 15, 2002. That facility assessment identified various issues, each of which has been addressed by the Owner to the satisfaction of DMS, as reflected in a letter to the Owner, dated March 27, 2003, which is attached hereto, so the Building is in good shape.

DOC Has Indicated that the Building Meets Its' Needs For the 20 Year Horizon.

The DOC has evaluated its current and future programmatic space requirements and has indicated that its programmatic needs will be met by remaining in the Building through December 31, 2023. The DOC has invested more than $4 million dollars in improvements to the Building, consisting primarily of state of the art computer facilities which house the DOC's entire state corrections and parole database.

Why A Lease Purchase and Why Now?

Using the lease purchase statute to re-structure the existing leases offers an opportunity for the DOC to significantly cut its occupancy expenses over the next 20 years, without cutting services. The proposal results in the DOC getting free rent for the first year (more than $4 million in savings) and substantially lower rent locked in at $17.39 per square foot through December 31, 2023. The proposal makes solid business sense even in good economic times, however it is even more compelling in current economic times.

With the interest rates being so low, there is a window of opportunity to implement the lease re-structuring with this level of savings to the State. The Proposal is interest rate sensitive and will need to be adjusted to reflect the interest rate at the time of the closing of the transaction. The same would be true if what was being "refinanced" was a personal residence.

What Are the Business Terms?

The State would get free rent for the first year of more than $4 million, and a "debt service reserve" of $4 million at the end of the 20 year lease term to pay the last year's rent. So, in essence, the State gets first and last year's rent free.

The State would pay substantially lower rent locked in at $17.39 per square foot through December 31, 2023. If the Proposal is implemented, the State will save more than $26 million over the next 20 years, just in rent payments.

At the end of the 20 year lease term, the State would have an option to own the Building for $1.00. With proper maintenance of the building, as outlined and provided for in this proposal, the Building would be a valuable asset for the State for many years following the 20 year lease term. The residual value of the Building will be largely determined by whether the State continues to use the Building for state office purposes or whether the Building is converted into private use. Regardless, the residual value of the Building will be significant, in the tens of millions of dollars, on top of occupancy costs savings over the next 20 years.

Under the existing leases, the DOC is responsible for operating and maintenance expenses including janitorial services, utilities and landscaping. Currently, the DOC uses prison labor to perform these obligations.

Under the proposed lease purchase agreement, the DOC would assume the remainder of the maintenance obligations, but would receive a funds in a capital maintenance reserve account as part of the transaction sufficient to handle the projected capital needs over the 20 year lease term. The DOC would exercise complete control over the capital maintenance reserve account. The Proposal would establish a capital maintenance reserve account in the amount of $2.5 million, supplemented by a portion of the rent payments during the 20 year term.

How Would The Lease Purchase Be Implemented?

The Owner would enter into a lease purchase agreement with the DOC, upon the terms and conditions set out in the Proposal. The lease purchase agreement would be contingent upon the implementation of the transaction as described in the Proposal.

To implement the transaction, a non-stock, non-profit corporation would be formed to serve as an instrumentality of the State (the "DOC Financing Corporation") to hold legal title to the Facility and to administer the capital improvement fund during the 20 year lease term. The DOC Corporation would be governed by a board of directors, consisting of (i) the Secretary of the DOC, or his or her nominee; (ii) such other persons as determined appropriate by the Legislature to be appropriate to provide governance to the DOC Financing Corporation. The use of a non-stock, non-profit entity to serve as an instrumentality of the State has been approved by the Legislature on previous occasions and has been reviewed by the Division of Bond Finance.

Certificates of Participation ("COPs") in the lease payments would be issued to finance (i) acquisition of the Building from the Owner, with title to the Building held by the DOC Financing Corporation, (ii) funding of the reserve accounts as set out in the Proposal and (iii) costs of issuance of the bonds. The Certificates of Participation would not be revenue bonds and would be dependent upon annual appropriation of the lease payments by the Legislature.

The DOC Financing Corporation would administer the capital maintenance reserve account to make capital expenditures with respect to the Building. The capital maintenance reserve account would consist of an initial account in the amount of $2.5 million, supplemented by a portion of the rent payments.

The DOC Financing Corporation would close on the transaction acquiring the Building from the Owner. As part of the closing on the transfer of the Building to the DOC Corporation, the Owner would assign the lease-purchase agreement with the DOC to the DOC Corporation.

The lease purchase agreement would provide that the DOC makes regularly scheduled rent payments which are sufficient to, among other things, pay the debt service on the bonds and fund the renewal and replacement account of the capital improvement fund. The rent payments would be subject to non-appropriation.

At the end of the 20 year lease term, the State has the option to purchase the Building from the DOC Corporation for the nominal consideration of $1.00. Any funds remaining in the capital maintenance reserve account belong to the DOC Corporation and would be restricted for use only to address the capital maintenance needs of the Building. The State could also sell the Building to the private sector, vacate the Building and use the residual value for purposes other than continued use of the Building as a state office facility.

Cost Benefit Analysis—Is The Proposal In the Best Interests of the State?

The DOC, in consultation with the Auditor General, has been charged by the Legislature to "conduct a cost benefit analysis and evaluate whether ... the lease purchase is in the best interests of the State." With DMS having completed its facilities analysis and concluding that the Building is in good shape, the focus is on whether the Proposal makes sense from the financial standard.

To assist in that analysis and evaluation, the Owner engaged Fore Consulting, Inc., nationally recognized real estate consultant, to conduct an independent cost benefit analysis of the Proposal. The Fore Consulting Report dated May 27, 2003 is enclosed, which concludes that "the Lease Purchase Proposal (May 12, 2003) would provide the State of Florida with substantial cost savings over its current leases in the Blairstone Building." The Fore Consulting Report goes on to conclude that there exists the opportunity to "reduce DOC's annual occupancy costs with the implementation of the Lease Purchase Proposal.

In addition, at the suggestion of the Division of Bond Finance, the Owner engaged Marianne Edmonds, President of Marianne Edmonds, Inc., who is an expert on structuring lease purchase financings. Ms. Edmonds has completed an independent analysis and prepared a report, which is enclosed. Ms. Edmonds also concludes that the lease purchase transaction as set forth in the Proposal would result in significant financial savings to the State. Ms. Edmonds has provided representation to various state agencies on lease purchase proposals made on other transactions.

The Owner would be pleased to make these two experts available to the DOC and the Auditor General to assist in the analysis and evaluation to be conducted as a result of the Budget Proviso Language. We look forward to working with you.

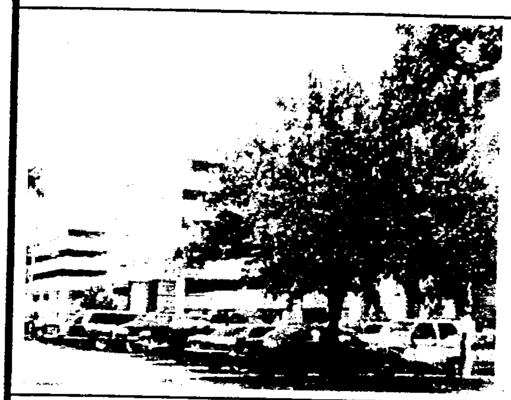
Respectfully submitted,

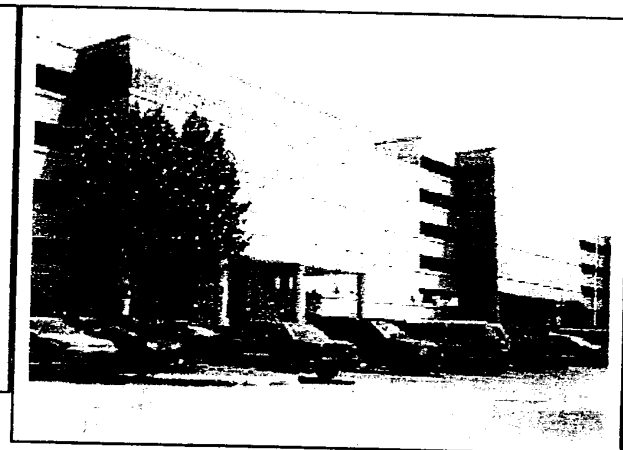
John G. "Chip" Dicks, President
Blairstone Properties, L.L.C.
1015 East Main Street, Third Floor
Richmond, Virginia 23219
888-252-6299 (o)
804-225-5508 (fax)
E-mail: chipdicks@capitalric.net

LEASE PURCHASE PROPOSAL

FOR

DEPARTMENT OF CORRECTIONS HEADQUARTERS BUILDING





2601 Blairstone Road

Executive Summary

The Owner of the Department of Corrections ("DOC") Headquarters Building (the "Building") has proposed to convert the two current leases for the Building at 2601 Blairstone Road, Tallahassee, Florida, into a single lease purchase agreement. The lease purchase proposal would extend the term of the existing leases from December 31, 2014 to December 31, 2023.

At the end of the 20 year lease term, the State would have an option to own the Building for $1.00. With proper maintenance of the building, as outlined and provided for in this proposal, the Building would be a valuable asset for the State for many years following the 20 year lease term.

Under the existing leases, the DOC is responsible for operating and maintenance expenses including janitorial services, utilities and landscaping. The DOC uses prison labor to perform many of these obligations at no cost to the State.

Under the proposed lease purchase agreement, the DOC would assume the remainder of the maintenance obligations, but would receive a funds in a capital maintenance reserve account as part of the transaction sufficient to handle the projected capital needs over the 20 year lease term. The DOC would exercise complete control over the capital maintenance reserve account.

The lease purchase proposal offers an opportunity for the DOC to significantly cut its occupancy expenses over the next 20 years, without cutting services. The proposal results in the DOC getting free rent for the first year (more than $4 million in savings) and substantially lower rent locked in at $17.39 per square foot through December 31, 2023.

The proposal makes solid business sense even in good economic times, however it is even more compelling in difficult economic times. The savings on the lease purchase proposal

No matter how compelling the economics are, it is important for the State to have the assurance that the property is a good real estate investment. The Department of Management Services ("DMS") has completed an overall facilities assessment and has confirmed that the Building is in good condition.

The proposed budget proviso language would authorize the DOC to implement the lease purchase transaction as outlined in this proposal.

Property Summary and Status Report

Owner:	Blairstone Properties LLC
Address:	2601 Blairstone Road Tallahassee, Florida 32399
Rentable Square Feet:	253,524
Year Built:	1990/1994

2601 Blairstone was a "build-to-suit" for the Department of Corrections (DOC). Building A opened in 1990 and Buildings B and C were built in 1994 to accommodate expansion of the DOC. In 1999-2000, an additional 8,848 square feet of office space was enclosed from Building A parking area.

The DOC has invested more than $4 million dollars in improvements to its Headquarters Building (the "Building"), consisting primarily of state of the art computer facilities which house the DOC's entire state corrections and parole database. The DOC has evaluated its current and future programmatic space requirements and has indicated that its programmatic needs will be met by remaining in the Building through December 31, 2023.

The DOC requested that the Department of Management Services (DMS) conduct an overall facility assessment of the Building, which was done on April 15, 2002. That facility assessment identified various issues, each of which has been addressed by the Owner to the satisfaction of DMS, as reflected in a letter to the Owner, dated March 27, 2003, which is attached hereto, so the Building is in good shape.

The Building has its own parking deck and exterior parking fields to provide sufficient parking to accommodate the needs of the DOC. An environmental report has confirmed there are no hazards on the Property. A roofing report confirmed the roof is in good shape and Trane has been engaged by the Owner to maintain the HVAC infrastructure at the Building. Finally, DMS completed an energy analysis and confirmed that the Building meets energy efficiency goals for state buildings.

Conclusion

The Owner engaged Marianne Edmonds, Inc. to assist in the analysis of the financial benefits to the State of implementing the lease purchase proposal. Ms. Edmonds is on the short list of financial advisors approved by the Division of Bond Finance and in the past, has represented various agencies on lease purchase transactions, including the DOC.

Ms. Edmonds has prepared an analysis of the comparison of the current lease rates and the lease rates under the lease purchase proposal for the Building. That analysis assumes that the existing leases would be restructured using the lease purchase vehicle, upon the following terms and conditions:

- Free rent for year one of a 20 year lease for an immediate savings of $4,281,750.00.

- Rent rate of $17.39 per square foot which includes $0.50 per square foot annually to be funded into the Capital Maintenance Reserve Account established as part of the transaction.

- An upfront payment of $2,500,000.00 into the Capital Maintenance Reserve Account, which will accrue interest, along with accrued interest on the unused portion of the funds placed in the Capital Maintenance Reserve Account as part of the rent payments.

- Return to the State of the Debt Service Reserve which is part of the transaction, a value of $4,283,000.00, which effectively covers the rent payments due for the last year of the restructured lease.

The analysis prepared by Ms. Edmonds shows a bottom line savings to the State in occupancy costs for the Building would be $32,586,140, if the existing leases are extended upon their same terms and conditions to

December 31, 2003. Even if the rent were not increased after December 31, 2014, the end of the existing lease terms, the bottom line savings in occupancy costs to the State over the 20 year period would be $25,525,678.93.

Just like the low interest rates have allowed millions of homeowners to cut their occupancy costs, the current interest rates allow the State to the do the same thing, through this lease purchase proposal. Upon inclusion of proviso language in the Appropriations Act to authorize the lease purchase transaction to proceed with the DOC, the Owner will enter into a lease purchase agreement with the DOC upon the terms and conditions outlined in this proposal.

Respectfully submitted,

John G. "Chip" Dicks
President
Blairstone Properties, L.L.C.
May 12, 2003

Comparision of Current Lease Rates

to

Lease Rates With Lease Structuring

2601 Blairstone

Marianne Edmonds, Inc.
May 9, 2003

SOURCES AND USES OF FUNDS

SOURCES OF FUNDS	
Sale of Lease Certificates of Participation............................	$51,735,000.00
TOTAL SOURCES..	**$51,735,000.00**
USES OF FUNDS	
Deposit to Project Acquisition Fund....................................	41,500,000.00
Deposit to Capitalized Interest (CIF) Fund...........................	2,586,750.00
Deposit to Debt Service Reserve Fund (DSRF)....................	4,283,000.00
Deposit to Capital Maintenance Reserve Funds....................	2,500,000.00
Financing Costs..	863,502.00
Rounding Amount..	1,748.00
TOTAL USES..	**$51,735,000.00**

This Sources and Uses of Funds Table, and the accompanying schedules, were developed assuming financing costs similar to those on the Department of Children and Families South Florida State Hospital lease, interest rates slightly above current market levels, and level lease payments after the first year. Significant market changes would affect this analysis.

Comparison of Current Lease and Restructured Lease

Assumes no increase in currrent lease rates after 2014

Fiscal Year ending 6/30	Current	Restructured Basic Lease Payments	Supplemental Rent (Maintenance Expenses)	Total Rent
2004	$ 4,373,927.10		$ 126,000.00	$ 126,000.00
2005	4,460,125.26	4,281,750.00	126,000.00	4,407,750.00
2006	4,624,915.86	4,282,000.00	126,000.00	4,408,000.00
2007	4,739,001.66	4,278,000.00	126,000.00	4,404,000.00
2008	5,129,428.62	4,279,750.00	126,000.00	4,405,750.00
2009	5,148,123.87	4,281,750.00	126,000.00	4,407,750.00
2010	5,370,276.42	4,278,750.00	126,000.00	4,404,750.00
2011	5,494,503.18	4,280,750.00	126,000.00	4,406,750.00
2012	5,621,265.18	4,282,250.00	126,000.00	4,408,250.00
2013	5,748,027.18	4,283,000.00	126,000.00	4,409,000.00
2014	5,867,183.46	4,282,750.00	126,000.00	4,408,750.00
2015	5,867,183.46	4,281,250.00	126,000.00	4,407,250.00
2016	5,867,183.46	4,278,250.00	126,000.00	4,404,250.00
2017	5,867,183.46	4,278,500.00	126,000.00	4,404,500.00
2018	5,867,183.46	4,281,500.00	126,000.00	4,407,500.00
2019	5,867,183.46	4,281,750.00	126,000.00	4,407,750.00
2020	5,867,183.46	4,279,000.00	126,000.00	4,405,000.00
2021	5,867,183.46	4,283,000.00	126,000.00	4,409,000.00
2022	5,867,183.46	4,283,000.00	126,000.00	4,409,000.00
2023	5,867,183.46	4,278,750.00	126,000.00	4,404,750.00
Total	**$ 109,381,428.93**	**$ 81,335,750.00**	**$ 2,520,000.00**	**$ 83,855,750.00**

Fiscal Year ending 6/30	Current Per Sq. Ft.	Restructured Per Sq Ft. Basic Rent	Per Sq Ft. Supplemental Rent (Maintenance Expenses)	Total Rent Per Sq Ft.
2004	$ 17.25		$ 0.50	$ 0.50
2005	17.59	16.89	0.50	17.39
2006	18.24	16.89	0.50	17.39
2007	18.69	16.87	0.50	17.37
2008	20.23	16.88	0.50	17.38
2009	20.31	16.89	0.50	17.39
2010	21.18	16.88	0.50	17.37
2011	21.67	16.88	0.50	17.38
2012	22.17	16.89	0.50	17.39
2013	22.67	16.89	0.50	17.39
2014	23.14	16.89	0.50	17.39
2015	23.14	16.89	0.50	17.38
2016	23.14	16.88	0.50	17.37
2017	23.14	16.88	0.50	17.37
2018	23.14	16.89	0.50	17.38
2019	23.14	16.89	0.50	17.39
2020	23.14	16.88	0.50	17.38
2021	23.14	16.89	0.50	17.39
2022	23.14	16.89	0.50	17.39
2023	23.14	16.88	0.50	17.37

Comparison of Current Lease and Restructured Lease

Assumes Current Lease Escalates at 2.5% per Year After 2014

Fiscal Year ending 6/30	Current	Restructured Basic Lease Payments	Supplemental Rent (Maintenance Expenses)	Total Rent
2004	$ 4,373,927.10		$ 126,000.00	$ 126,000.00
2005	4,460,125.26	4,281,750.00	126,000.00	4,407,750.00
2006	4,624,915.86	4,282,000.00	126,000.00	4,408,000.00
2007	4,739,001.66	4,278,000.00	126,000.00	4,404,000.00
2008	5,129,428.62	4,279,750.00	126,000.00	4,405,750.00
2009	5,148,123.87	4,281,750.00	126,000.00	4,407,750.00
2010	5,370,276.42	4,278,750.00	126,000.00	4,404,750.00
2011	5,494,503.18	4,280,750.00	126,000.00	4,406,750.00
2012	5,621,265.18	4,282,250.00	126,000.00	4,408,250.00
2013	5,748,027.18	4,283,000.00	126,000.00	4,409,000.00
2014	5,867,183.46	4,282,750.00	126,000.00	4,408,750.00
2015	6,013,863.05	4,281,250.00	126,000.00	4,407,250.00
2016	6,164,209.62	4,278,250.00	126,000.00	4,404,250.00
2017	6,318,314.86	4,278,500.00	126,000.00	4,404,500.00
2018	6,476,272.73	4,281,500.00	126,000.00	4,407,500.00
2019	6,638,179.55	4,281,750.00	126,000.00	4,407,750.00
2020	6,804,134.04	4,279,000.00	126,000.00	4,405,000.00
2021	6,974,237.39	4,283,000.00	126,000.00	4,409,000.00
2022	7,148,593.33	4,283,000.00	126,000.00	4,409,000.00
2023	7,327,308.16	4,278,750.00	126,000.00	4,404,750.00
Total	$ 116,441,890.53	$ 81,335,750.00	$ 2,520,000.00	$ 83,855,750.00

Fiscal Year ending 6/30	Current Per Sq. Ft.	Restructured Per Sq Ft. Basic Rent	Per Sq Ft. Supplemental Rent (Maintenance Expenses)	Total Rent Per Sq Ft.
2004	$ 17.25	$ -	$ 0.50	$ 0.50
2005	17.59	16.89	$ 0.50	17.39
2006	18.24	16.89	0.50	17.39
2007	18.69	16.87	0.50	17.37
2008	20.23	16.88	0.50	17.38
2009	20.31	16.89	0.50	17.39
2010	21.18	16.88	0.50	17.37
2011	21.67	16.88	0.50	17.38
2012	22.17	16.89	0.50	17.39
2013	22.67	16.89	0.50	17.39
2014	23.14	16.89	0.50	17.39
2015	24.31	16.89	0.50	17.39
2016	24.92	16.88	0.50	17.38
2017	25.55	16.88	0.50	17.37
2018	26.18	16.89	0.50	17.37
2019	26.84	16.89	0.50	17.38
2020	27.51	16.88	0.50	17.39
2021	28.20	16.89	0.50	17.38
2022	28.90	16.89	0.50	17.39
2023	29.62	16.88	0.50	17.39
				17.37

Fore Consulting, Inc.

Tel 703.761.5500
Fax 703.761.2354
forecons@erols.com

1493 Chain Bridge Road
Suite 104
McLean, VA 22101

REVIEW OF THE BLAIRSTONE BUILDING

2601 Blairstone Road
Tallahassee, Florida

Prepared for

Capital Realty & Investment Company
1015 East Main Street
Third Floor
Richmond, Virginia 23219

May 27, 2003

Introduction

We have been requested to perform an independent real estate analysis of the Blairstone Building, located at 2601 Blairstone Road, Tallahassee, Florida (the "Blairstone Building" or the "Property"), which serves as the Headquarters Building for the Florida Department of Corrections (the "DOC"). In this analysis, we took into consideration the findings of a facilities audit of the Property by the Department of Management Services dated April 15, 2002 (the "DMS Facilities Audit"). The DMS Facilities Audit was conducted pursuant to a proposal from the Owner and a request by the DOC for consideration of a lease purchase proposal from the Owner, dated November 15, 2001.

Our analysis focused on the Property and the remedy of facilities issues identified in the DMS Facilities Audit, the Property's relative position within the Tallahassee office market, a comparative analysis of the current leases on the Property with the DOC, and the updated lease purchase proposal by the Owner, dated May 12, 2003 (the "Lease Purchase Proposal").

Much has changed in the last thirteen months, since the completion of the April 15, 2002 DMS Facilities Audit. The facilities issues identified in the DMS Facilities Audit have all been addressed to the satisfaction of DMS, as evidenced by the DMS letter dated March 27, 2003 (the "DMS Sign-Off Letter"), with the exception of four minor items which, we understand, are in the process of being addressed as of the date of this Report. The budget being considered in the Special Session of the Florida Legislature creates an opportunity for occupancy cost savings, especially considering today's interest rates. Furthermore, the State budget situation makes the possibility of construction of a new building for the DOC nearly impossible, even if that were a realistic option in the first place.

At the outset, we met with the Owner in Richmond, Virginia. Subsequently, we inspected the Property to make our own independent assessment as well as to observe the status of the facilities issues identified in the DMS Facilities Audit. We acquired and reviewed the following materials:

- DMS Facilities Audit, April 15, 2002;
- Department of Corrections, Update Facilities Punchlist, December 12, 2002;
- Department of Management Services letter dated March 27, 2003 (the "DMS Sign-Off Letter");
- Service Agreement, Trane, January 30, 2003, for the inspection, maintenance, and repair of the air conditioning units at 260l Blairstone Road;
- The November 15, 2001 Lease Purchase Proposal;
- The May 12, 2003 Lease Purchase Proposal (the "Lease Purchase Proposal");
- State of Florida's lease procurement regulations;
- Estoppel Certificates for Lease Nos. 700:0606 and 700:0817, Florida Department of Corrections, July 5, 2000 and March 27, 2003;
- "2002 Budget," for 2601 Blairstone Road Office Building, Blairstone Properties, LLC; and
- "2003 Budget," for 2601 Blairstone Road Office Building, Blairstone Properties, LLC.

We proceeded to examine the local office market in order to understand the Property's relative position in the Tallahassee office market. Next, we evaluated current leases at the Property and the Lease Purchase Proposal. We were then able to reach certain conclusions about the Property and the various occupancy alternatives available to the DOC.

Property Overview

The Blairstone Building, actually three interlinked buildings, is located at 2601 Blairstone Road, east and south of Tallahassee's Downtown. The Building is situated on 6.47 acres in the southeast quadrant of the intersection of Blairstone Road and St. Augustine Road. The Blairstone Building was a "build-to-suit" development for the DOC; the Building serves as the DOC's headquarters. Building A opened in 1990, and Buildings B and C were built in 1994 to accommodate the expansion of the DOC. In the 1999, an additional 8,848 square feet was enclosed from the Building A parking lot. In total, the Blairstone Building offers some 253,524 rentable square feet of office space on five to six floors.

The Building has a health club for the exclusive use of DOC employees, a cafeteria, and other special use areas, such as the Emergency Operations Center. An adjacent four-level parking garage provides 498 all-weather spaces, connected to the Building at the second level, in addition to 345 surface spaces on the adjoining lot. These parking spaces are entirely free to DOC employees and guests.

The Blairstone Building is entirely leased to the DOC under two leases, as follows:

- Lease Number 700:0817
  Rentable Square Feet 41,545
  Lease Commencement February 1, 2000
  Initial Expiration December 31, 2004
  First Extension Expiration December 31, 2009
  Second Extension Expiration December 31, 2014
  (Although this lease includes 9,639 square feet of office space leased to the DOC at 2700 Blairstone Road, this space has been excluded from this analysis.)

- Lease Number 700:0606
  Rentable Square Feet 211,979
  Lease Commencement January 1, 1995
  Initial Expiration December 31, 2004
  First Extension Expiration December 31, 2009 (already exercised)
  Second Extension Expiration December 31, 2014

The average rental rate for the space encumbered by the two existing leases ranges from $17.25 per rentable square foot (in 2004) to $23.14 per rentable square foot (in 2014). (See Exhibit 1.) According to the terms of these leases, the Department is responsible for all utilities, janitorial services, and lawn and landscaping services. The Department currently utilizes prison labor for the janitorial services, and lawn and landscaping services, realizing a significant cost savings. The Owner is responsible for the on-going maintenance and repair of building systems and equipment, including the HVAC systems and equipment.

Tallahassee Office Market Review

We examined the Tallahassee office market, focusing on the competitiveness of the Blairstone Building and the current market rental terms for the Property. We reached our conclusions concerning the Building's competitiveness and current rental terms by: evaluating the Blairstone Building within the context of the broader market; examining the current office market in Tallahassee; reviewing recent comparable leases and estimating the current market rental rate of the Blairstone Building; and forecasting future office market conditions.

Evaluation of the Blairstone Building

We toured the Blairstone Building on February 4, 2003, and concluded that the Building is well-maintained and appears to function well for the DOC. Any facilities issues which previously existed have been addressed to the satisfaction of DMS with the exception of four minor items which, we understand, are in the process of being addressed as of the date of this Report.

In the context of our extensive inspection of the Tallahassee office marketplace, we conclude that the Blairstone Building is a Class A- or B+ building. The location of the Building is superior, providing easy access to the CBD and other State agencies. We also note that the Blairstone Building is one of the more attractive and better maintained privately-owned buildings that State agencies occupy. Most State agency offices in private buildings are housed in dated Class B or C office facilities, including lower-quality, converted shopping centers, like Northwood Centre. It is also evident from our review of the marketplace that there are few single buildings that could match the size of the Blairstone Building and therefore, could afford the DOC quality space at one location.

Recent Comparable Leases and Estimated Market Rental Rate of the Blairstone Building

We have researched recent leases for comparable office space in the Tallahassee market. We have also held conversations and obtained comparables information from knowledgeable leasing agents and real estate appraisers, and searched the State's database of government leases in private office space. The Blairstone Building is a Class A-/B+ building and, as such, the upper end of the rent market range would be indicated for it.

We also discussed the market rent of the Blairstone Building in the marketplace with knowledgeable brokers in Tallahassee, from whom we concluded that the full-service equivalent market rental rate being paid by the Department of Corrections is in line with the market rate for comparable space. We reviewed two leases for large areas in good quality buildings by the State of Florida that commenced in 2002 in the Koger Executive Office Center, for leased areas of approximately 85,000 square feet each, which have full-service rental rates of \$18.38 and \$21.43 per square foot full service. As a point of reference, the State of Florida also entered into a lease at the much inferior, red-and-gray striped Fort Knox Executive Center in the Northeast submarket for \$17.15 per square foot full service for over 21,000 square feet of space in 2002. (See Exhibit 2.) These leases are summarized as follows:

Recent Full Service Leases
State of Florida
Tallahassee, Florida

Department	Location	Lease Commencement	Term	Area Leased (Square Feet)	Rent per Square Foot
Financial Services	Koger Executive Center	9/1/02	5.25 years	84,538	$21.43
Juvenile Justice	Koger Executive Center	2/1/02	5.00 years	85,638	$18.38
Health	Ft. Knox Executive Office Center	7/1/02	3.50 years	21,379	$17.15

Source: State of Florida Online Database; Fore Consulting, Inc.

Findings

We conclude from our review of the Tallahassee office market that:

- The Blairstone Building is a Class A-/B+ property that an attractive, well-maintained building that appears to function well for the DOC.

- There is currently no alternative, privately-owned building with sufficient vacancy that could accommodate the DOC operations at the Blairstone Building.

- The market-equivalent rent under current leases at the Blairstone Building appears to be in line with current market rental rates.

Review of Occupancy Alternatives

We are able to express an opinion on the various occupancy options available to the DOC in financial terms. We understand that current budgetary conditions in Florida rule out the possibility of a new building being constructed for the DOC's occupancy. Also, as indicated above in our review of current office market conditions, we understand that there are no available blocks of comparable quality space in the market able to accommodate the DOC at one location. As indicated above, the building facilities issues detailed in the DMS Facilities Audit have been addressed by the Owner.

Therefore, the two remaining options for the purposes of comparison of the costs of occupancy to the DOC are:

- Remaining in the Blairstone Building under the terms of the current leases and extension options; and

- Remaining in the Blairstone Building and exercising the Lease Purchase Proposal.

To compare these alternatives, we estimated the DOC's annual costs of occupancy associated with each alternative. We used the same assumptions to compare the occupancy costs associated with each alternative to the extent possible so that a direct comparison of the alternatives could be made. The common assumptions for both alternatives included:

- An inflation rate of 2.0 percent per year. This rate of inflation has been applied to the projection of all operating expenses.

- A 20-year projection period, from January 1, 2004 through December 31, 2023. Although the current leases including extension options extend only through December 31, 2014, for purposes of this analysis we have assumed that these leases would be extended through December 31, 2023.

- A common discount rate. To compare the overall difference between the two alternatives, we have discounted the 20-year projection of occupancy costs of each alternative at a rate of 4.25 percent. We selected this rate based on a recent bond refunding by the Florida Division of Bond Finance of the State Board of Administration. This 15-year issue carried a coupon rate of 3.99 percent and was issued in April 2003. We adjusted this rate upward based on additional information from the State Board of Administration concerning recent trading of longer term State bonds.

In addition to these common assumptions for both alternatives, specific assumptions for each alternative include:

Remaining in the Blairstone Building under the terms of the current leases and extension options:

- Base rent. We have assumed the continuation of the two current leases at the Blairstone Building, including all lease extensions, through 2014. Thereafter, in order to be able to compare the current leases with the Lease Purchase Proposal, we have extended the annual base rent under the two leases through 2023 at an annual increase of 2.25 %. We selected this rate of increase as it is the rate (rounded) of annual increase for the final five years of the current lease extensions.

- Operating Expenses. The Department of Corrections directly pays the costs of janitorial services, utilities, and landscaping at the Blairstone Building under its current leases. These costs have been estimated by the Department of Management Services to total $555,880 in 2003. We have used this estimate and projected it going forward at the rate of inflation assumed in this analysis (2.0 percent per year). (See Exhibit 3.)

Remaining in the Blairstone Building and exercising the Lease Purchase Proposal:

- Base rent. We have used the schedule of annual rent contained in the Lease Purchase Proposal dated May 12, 2003, that is, a fixed annual base rent of $17.39 per square foot, or $4,408,782 per year for the 253,524-square foot Property.

- Operating Expenses. In addition to the operating expenses that the DOC now pays under the current leases, the DOC would also pay most other operating costs now paid by the Owner. These additional operating expenses include: contracts and parts and labor expenses for cleaning, electrical, HVAC, plumbing, elevator, and life safety, as well as miscellaneous security, common area maintenance, and general building expenses. To estimate the DOC's expenses for these additional categories of operating expenses we have relied upon the estimates for these costs contained in the Owner's operating budget for the building for 2003. These expenses were then projected to increase by the rate of inflation generally used throughout this analysis. (See Exhibit 4.)

Discussion of Two Options

Under the Lease Purchase Proposal, the State of Florida would enjoy a significant reduction in its annual costs of occupancy of the Blairstone Building, as well as become the Owner of the Property at the end of the 20-year lease by exercising an option to purchase the Property for $1.00. Although the DOC would increase the amount that it pays each year for operating expenses, the Lease Purchase Proposal provides funding for such operating costs as additional rent and the annual base occupancy costs would be reduced over the 20-year lease term, without increase or escalation. Thus, we estimate that over the 20-year lease term, the DOC would enjoy an average annual savings of nearly $1.4 million in its costs of occupancy of the Blairstone Building. Savings to the State of Florida are estimated to total more than $27.0 million dollars over the 20-year lease term, including free rent in the first year of the lease to accommodate the current budget crunch. (See Exhibit 5.)

We have also estimated the interest-bearing capital reserve account that would be established at the beginning of the 20-year lease term and the annual set-asides from the rent payments which will be added to the capital reserve account to total over $5.0 million. The "Capital Maintenance Reserve Account" will provide a significant fund to address capital needs as they arise during the 20-year lease term. (See Exhibit 6).

Conclusions

We conclude the following:

- The Blairstone Building is a Class A-/B+ property that an attractive, well-maintained building that appears to function well for the DOC.
- The facilities issues noted in the DMS Facilities Audit of April 15, 2002 have been addressed with the exception of four minor items which, we understand, are in the process of being addressed as of the date of this Report.
- There are currently no alternative, privately-owned buildings with sufficient vacancy that could accommodate the DOC's operations at the Blairstone Building.
- The market-equivalent rent under current leases at the Blairstone Building appears to be in line with current market rental rates.
- The Lease Purchase Proposal (May 12, 2003) would provide the State of Florida with substantial cost savings over its current leases in the Blairstone Building.
- The Blairstone Building is well suited to the DOC's requirements.
- Thus, there exists the opportunity to further reduce DOC's annual occupancy costs with the implementation of the Lease Purchase Proposal

Exhibit 1

Summary of Existing Leases
2601 Blairstone Road
2004 - 2014

	Lease No. 700:0606 1/		Lease No. 700:0817		Combined Leases	
Square Feet:	211,979		41,545		253,524	
	Per SF	Total	Per SF	Total	Per SF	Total
2004	$17.40	$3,688,435	$16.50	$685,493	$17.25	$4,373,927
2005	$17.74	3,760,507	$16.84	699,618	$17.59	4,460,125
2006	$18.39	3,898,294	$17.49	726,622	$18.24	4,624,916
2007	$18.84	3,993,684	$17.94	745,317	$18.69	4,739,002
2008	$20.38	4,320,132	$19.48	809,297	$20.23	5,129,429
2009	$20.83	4,415,523	$19.93	827,992	$20.68	5,243,514
2010	$21.33	4,521,512	$20.43	848,764	$21.18	5,370,276
2011	$21.82	4,625,382	$20.92	869,121	$21.67	5,494,503
2012	$22.32	4,731,371	$21.42	889,894	$22.17	5,621,265
2013	$22.82	4,837,361	$21.92	910,666	$22.67	5,748,027
2014	$23.29	4,936,991	$22.39	930,193	$23.14	5,867,183

1/ Source: Rental Rate Schedule, Lease modification #4, February 16, 2000.
2/ Source: Estoppel Certificate, July 5, 2000.
Source: Fore Consulting, Inc.

Exhibit 2

Recent Lease Comparables
Tallahassee Office Market
2001 - 2002

No.	Submarket	Tenant Name	Address/Location	Start Date	Size (sf)	Term	Options	Full Service Rent/SF	Concessions
1	Southeast	State of Florida Financial Services	1311 Executive Drive (Koger Executive Center)	9/1/02	84,538	5.25	Three 5-year	$21.43	None
2	Southeast	State of Florida Juvenile Justice	1311 Executive Drive (Koger Executive Center)	2/1/02	85,638	5.00	One 5-year	$18.38	None
3	Northeast	State of Florida Health	2729 Ft. Knox Blvd. (Ft. Knox Executive Office Center	7/1/02	21,379	3.50	Three 1-year	$17.15	None
4	Northeast	(not disclosed)	Investar Building Reiner Road	2002	9,535	5.00	None	$21.50	None
5	Northeast	(not disclosed)	1983 Center Pointe Road	2001	12,500	7.00	None	$18.05	None

Sources: Private lease database, available from State of Florida online web site; Diskin Property Research; Fore Consulting, Inc.

Exhibit 3

Cost of Occupancy Under Current Leases and Extensions
2601 Blairstone Road
2004 - 2023

	Total Rent [1/]		Operating Expenses [2/]				Cost of Occupancy		
Year	Total	Per SF	Janitorial	Utilities	Landscaping	Total	Total	Per SF	PV @ 4.25% [3/]
2004	$4,373,927	$17.25	$64,260	$492,538	$10,200	$566,998	$4,940,925	$19.49	$4,739,496
2005	4,460,125	$17.59	65,545	502,388	10,404	578,338	5,038,463	$19.87	4,636,027
2006	4,624,916	$18.24	66,856	512,436	10,612	589,904	5,214,820	$20.57	4,602,684
2007	4,739,002	$18.69	68,193	522,685	10,824	601,702	5,340,704	$21.07	4,521,622
2008	5,129,429	$20.23	69,557	533,139	11,041	613,736	5,743,165	$22.65	4,664,134
2009	5,243,514	$20.68	70,948	543,801	11,262	626,011	5,869,526	$23.15	4,572,425
2010	5,370,276	$21.18	72,367	554,677	11,487	638,531	6,008,808	$23.70	4,490,098
2011	5,494,503	$21.67	73,815	565,771	11,717	651,302	6,145,805	$24.24	4,405,247
2012	5,621,265	$22.17	75,291	577,086	11,951	664,328	6,285,593	$24.79	4,321,770
2013	5,748,027	$22.67	76,797	588,628	12,190	677,615	6,425,642	$25.35	4,237,950
2014	5,867,183	$23.14	78,333	600,401	12,434	691,167	6,558,350	$25.87	4,149,138
2015	5,999,195	$23.66	79,899	612,409	12,682	704,990	6,704,185	$26.44	4,068,490
2016	6,134,177	$24.20	81,497	624,657	12,936	719,090	6,853,267	$27.03	3,989,411
2017	6,272,196	$24.74	83,127	637,150	13,195	733,472	7,005,668	$27.63	3,911,872
2018	6,413,320	$25.30	84,790	649,893	13,459	748,141	7,161,462	$28.25	3,835,842
2019	6,557,620	$25.87	86,485	662,891	13,728	763,104	7,320,724	$28.88	3,761,292
2020	6,705,167	$26.45	88,215	676,149	14,002	778,366	7,483,533	$29.52	3,688,193
2021	6,856,033	$27.04	89,980	689,672	14,282	793,934	7,649,966	$30.17	3,616,516
2022	7,010,294	$27.65	91,779	703,465	14,568	809,812	7,820,106	$30.85	3,546,234
2023	7,168,025	$28.27	93,615	717,534	14,859	826,008	7,994,034	$31.53	3,477,320
Total	$115,788,195		$1,561,349	$11,967,368	$247,833	$13,776,550	$129,564,745		$83,235,763

[1/] See Exhibit 1 for detail; for purposes of comparative analysis, assumes existing leases extended beyond the end of lease extension options through 2023 at an annual increase of 2.5%. This rate is the compound annual growth rate (rounded) over the last five years of the term of existing leases, assuming all lease extension options are exercised.

[2/] Operating expense estimates for 2003 from DMS; operating expenses in subsequent years increased at estimated rate of inflation, 2.0% per year.

3/ Source: Florida Division of Bond Finance, based on coupon rate for bond refunding for new building construction by the State of Florida in April 2003 and on trading of other previously issued State bonds.

Exhibit 4

Cost of Occupancy Under Proposed Lease/Purchase
2601 Blairstone Road
2004 - 2023

	Proposed Rent [1]		Operating Expenses					Cost of Occupancy		
Year	Rent	Per SF	Janitorial [2]	Utilities [2]	Landscaping [2]	Additional [3]	Total	Total	Per SF	PV @ 4.25% [4]
2004	$126,762	$0.50	$64,260	$492,538	$10,200	$197,629	$764,627	$891,389	$3.52	$855,049
2005	4,408,782	$17.39	65,545	502,388	10,404	201,582	779,919	5,188,701	$20.47	4,774,265
2006	4,408,782	$17.39	66,856	512,436	10,612	205,613	795,518	5,204,300	$20.53	4,593,398
2007	4,408,782	$17.39	68,193	522,685	10,824	209,726	811,428	5,220,210	$20.59	4,419,608
2008	4,408,782	$17.39	69,557	533,139	11,041	213,920	827,657	5,236,439	$20.65	4,252,611
2009	4,408,782	$17.39	70,948	543,801	11,262	218,198	844,210	5,252,992	$20.72	4,092,139
2010	4,408,782	$17.39	72,367	554,677	11,487	222,562	861,094	5,269,876	$20.79	3,937,930
2011	4,408,782	$17.39	73,815	565,771	11,717	227,014	878,316	5,287,098	$20.85	3,789,735
2012	4,408,782	$17.39	75,291	577,086	11,951	231,554	895,882	5,304,664	$20.92	3,647,315
2013	4,408,782	$17.39	76,797	588,628	12,190	236,185	913,800	5,322,582	$20.99	3,510,441
2014	4,408,782	$17.39	78,333	600,401	12,434	240,909	932,076	5,340,858	$21.07	3,378,892
2015	4,408,782	$17.39	79,899	612,409	12,682	245,727	950,717	5,359,499	$21.14	3,252,456
2016	4,408,782	$17.39	81,497	624,657	12,936	250,641	969,732	5,378,514	$21.22	3,130,931
2017	4,408,782	$17.39	83,127	637,150	13,195	255,654	989,126	5,397,908	$21.29	3,014,120
2018	4,408,782	$17.39	84,790	649,893	13,459	260,767	1,008,909	5,417,691	$21.37	2,901,839
2019	4,408,782	$17.39	86,485	662,891	13,728	265,983	1,029,087	5,437,869	$21.45	2,793,905
2020	4,408,782	$17.39	88,215	676,149	14,002	271,302	1,049,669	5,458,451	$21.53	2,690,149
2021	4,408,782	$17.39	89,980	689,672	14,282	276,728	1,070,662	5,479,444	$21.61	2,590,403
2022	4,408,782	$17.39	91,779	703,465	14,568	282,263	1,092,075	5,500,857	$21.70	2,494,509
2023	4,408,782	$17.39	93,615	717,534	14,859	287,908	1,113,917	5,522,699	$21.78	2,402,316
Total	$83,893,620		$1,561,349	$11,967,368	$247,833	$4,801,867	$18,578,417	$102,472,037		$66,522,011

[1] Source: Lease Purchase Proposal, May 12, 2003.

[2] Based on operating expense estimates for 2003 from DMS; operating expenses in subsequent years increased at estimated rate of inflation, 2.0% per year.

[3] Additional operating expenses under the proposed lease/purchase include: contracts and parts and repairs for cleaning, electrical, HVAC, plumbing, elevator, and life safety; miscellaneous security; common area maintenance; and general building expenses. These expenses are assumed to be the same as those budget for 2003 for 2601 Blairstone by the building owner. Other expenses, including real estate taxes, building insurance, and administrative expenses, would remain the responsibility of the building owner.

[4] Source: Florida Division of Bond Finance, based on coupon rate for bond refunding for new building construction by the State of Florida in April 2003 and on trading of other previously issued State bonds.

Source: Fore Consulting, Inc.

Exhibit 5

Comparison of Annual Costs of Occupancy
Occupancy Alternatives
2601 Blairstone Road
2004 - 2023

	Occupancy Alternatives		Annual Savings 3/	
	Current Leases 1/	Proposed Lease/Purchase 2/	Amount	Percent
2004	$4,940,925	$891,389	$4,049,536	82.0%
2005	$5,038,463	$5,188,701	($150,238)	-3.0%
2006	$5,214,820	$5,204,300	$10,521	0.2%
2007	$5,340,704	$5,220,210	$120,494	2.3%
2008	$5,743,165	$5,236,439	$506,727	8.8%
2009	$5,869,526	$5,252,992	$616,534	10.5%
2010	$6,008,808	$5,269,876	$738,932	12.3%
2011	$6,145,805	$5,287,098	$858,707	14.0%
2012	$6,285,593	$5,304,664	$980,929	15.6%
2013	$6,425,642	$5,322,582	$1,103,060	17.2%
2014	$6,558,350	$5,340,858	$1,217,493	18.6%
2015	$6,704,185	$5,359,499	$1,344,686	20.1%
2016	$6,853,267	$5,378,514	$1,474,754	21.5%
2017	$7,005,668	$5,397,908	$1,607,760	22.9%
2018	$7,161,462	$5,417,691	$1,743,771	24.3%
2019	$7,320,724	$5,437,869	$1,882,855	25.7%
2020	$7,483,533	$5,458,451	$2,025,082	27.1%
2021	$7,649,966	$5,479,444	$2,170,522	28.4%
2022	$7,820,106	$5,500,857	$2,319,249	29.7%
2023	$7,994,034	$5,522,699	$2,471,335	30.9%
Total	$129,564,745	$102,472,037	$27,092,708	20.9%

1/ From Exhibit 3.
2/ From Exhibit 4.
3/ The benefit of the proposed lease/purchase over continuation of the current leases.
Source: Fore Consulting, Inc.

Exhibit 6

Projected Capital Maintenance Reserve Account
Proposed and Amended Lease/Purchase
2601 Blairstone Road
2004 - 2023

	Funding [1/]	Cumulative	Expenditures	Subtotal	Interest [2/]	Total Fund
Closing	$ 2,500,000	$ 2,500,000	$ -	$ 2,500,000	$ -	$ 2,500,000
2004	126,762	2,626,762	-	2,626,762	19,500	2,646,262
2005	126,762	2,753,524	-	2,753,524	20,489	2,774,013
2006	126,762	2,880,286	-	2,880,286	21,477	2,901,763
2007	126,762	3,007,048	-	3,007,048	22,466	3,029,514
2008	126,762	3,133,810	-	3,133,810	23,455	3,157,265
2009	126,762	3,260,572	-	3,260,572	24,444	3,285,016
2010	126,762	3,387,334	-	3,387,334	25,432	3,412,766
2011	126,762	3,514,096	-	3,514,096	26,421	3,540,517
2012	126,762	3,640,858	-	3,640,858	27,410	3,668,268
2013	126,762	3,767,620	-	3,767,620	28,399	3,796,019
2014	126,762	3,894,382	-	3,894,382	29,387	3,923,769
2015	126,762	4,021,144	-	4,021,144	30,376	4,051,520
2016	126,762	4,147,906	-	4,147,906	31,365	4,179,271
2017	126,762	4,274,668	-	4,274,668	32,354	4,307,022
2018	126,762	4,401,430	-	4,401,430	33,342	4,434,772
2019	126,762	4,528,192	-	4,528,192	34,331	4,562,523
2020	126,762	4,654,954	-	4,654,954	35,320	4,690,274
2021	126,762	4,781,716	-	4,781,716	36,309	4,818,025
2022	126,762	4,908,478	-	4,908,478	37,297	4,945,775
2023	126,762	5,035,240	-	5,035,240	38,286	5,073,526

[1/] Source: "Lease Purchase Proposal for Department of Corrections Headquarter Building", dated May 12, 2003. Funding includes an upfront payment of $2.5 million and annual payments of $0.50 per square foot out of the fixed annual rent rate of $17.39 per square foot.
[2/] Interest projected at an annual rate of 0.78%, based on the rate quoted for the Merrill Lynch Ready Assets Trust (money market fund) on May 20, 2003.
Source: Fore Consulting, Inc.

FLORIDA
DEPARTMENT
OF
MANAGEMENT
SERVICES

JEB BUSH
Governor

SIMONE MARSTILLER
Interim Secretary

MyFlorida.com

Division of Facilities Management
4030 Esplanade Way
Suite 380
Tallahassee, Florida
32399-0950

Telephone:
850-488-2074

Fax:
850-922-5844

Internet:
www.MyFlorida.com

March 27, 2003

Mr. Chip Dicks
Capital Realty & Investment Company
1015 East Main Street, Third Floor
Richmond, Virginia 23219

Re: Department of Corrections Building
2601 Blairstone Road
Tallahassee, Florida

Dear Mr. Dicks,

In response to my letter to you dated December 16, 2002, with regards to the aforementioned facility, all of the items have been completed to the satisfaction of my Division, with the exception of the following items:

- ☑ All Building "A" Electrical Rooms – confirm with Florida Electric that all bushings are installed, grounded and connectors tightened.
- ☑ All panel boxes shall have Class B surge protectors installed.
- ☑ Provide refrigerant report(s) to the tenant, Department of Corrections with a copy to the Department of Management Services.
- ☑ Test lightening protection system to DMS' standard. DMS to provide standards to the Lessor.

As you have kept us abreast in the past, please continue to do so and advise me once the above items have been completed. If you should have any questions, please do not hesitate to contact me.

Very Truly Yours,

Chris M. Keena
Director, Facilities Management
and Building Construction

SECTION 4 - CRIMINAL JUSTICE AND CORRECTIONS

	FROM OPERATING TRUST FUND		1,699,690
632	OTHER PERSONAL SERVICES		
	FROM GENERAL REVENUE FUND	30,501	
	FROM GRANTS AND DONATIONS TRUST FUND . . .		40,000
633	EXPENSES		
	FROM GENERAL REVENUE FUND	4,415,712	
	FROM CRIMINAL JUSTICE STANDARDS AND TRAINING TRUST FUND		1,323,308
	FROM GRANTS AND DONATIONS TRUST FUND . . .		58,975
	FROM OPERATING TRUST FUND		127,101

From the funds in Specific Appropriation 633, the Department of Corrections, in consultation with the Auditor General, shall conduct a cost-benefit analysis and evaluate whether a lease-purchase of the administrative headquarters building of the Department of Corrections in Tallahassee, Florida is in the best interest of the state. The Auditor General shall report to the Joint Legislative Auditing Committee its evaluation by December 1, 2003.

634	OPERATING CAPITAL OUTLAY		
	FROM GENERAL REVENUE FUND	27,928	
	FROM CRIMINAL JUSTICE STANDARDS AND TRAINING TRUST FUND		24,172
	FROM GRANTS AND DONATIONS TRUST FUND . . .		27,500
635	SPECIAL CATEGORIES TRANSFER TO DIVISION OF ADMINISTRATIVE HEARINGS		
	FROM GENERAL REVENUE FUND	18,401	
636	SPECIAL CATEGORIES OFFICE OF MANAGEMENT AND BUDGET LAW LIBRARY		
	FROM GENERAL REVENUE FUND	9,649	
636A	SPECIAL CATEGORIES TRANSFER TO GENERAL REVENUE FUND		
	FROM GRANTS AND DONATIONS TRUST FUND . . .		8,000,000

Funds in Specific Appropriation 636A are from reimbursements from the United States Government for incarcerating aliens in Florida's prisons. If total reimbursements exceed $8,000,000, the Department shall submit a budget amendment in accordance with all applicable provisions of Chapter 216, Florida Statutes, requesting additional budget authority to transfer the balance to the General Revenue Fund.

637	SPECIAL CATEGORIES RISK MANAGEMENT INSURANCE		
	FROM GENERAL REVENUE FUND	973,730	
638	SPECIAL CATEGORIES TRANSFER TO DEPARTMENT OF MANAGEMENT SERVICES - HUMAN RESOURCES SERVICES PURCHASED PER STATEWIDE CONTRACT		
	FROM GENERAL REVENUE FUND	9,723,139	
TOTAL:	EXECUTIVE DIRECTION AND SUPPORT SERVICES		
	FROM GENERAL REVENUE FUND	32,265,302	
	FROM TRUST FUNDS		11,982,810
	TOTAL POSITIONS	374	
	TOTAL ALL FUNDS		44,248,112

FLORIDA CORRECTIONS COMMISSION

639	SALARIES AND BENEFITS POSITIONS	4	
	FROM GENERAL REVENUE FUND	277,024	
640	SPECIAL CATEGORIES FLORIDA CORRECTIONS COMMISSION		
	FROM GENERAL REVENUE FUND	80,078	

Exhibit B

Department of Corrections Analysis

FLORIDA
DEPARTMENT of
CORRECTIONS

Governor
JEB BUSH

Secretary
JAMES V. CROSBY, JR.

An Equal Opportunity Employer

2601 Blair Stone Road • Tallahassee, FL 32399-2500

http://www.dc.state.fl.us

November 19, 2003

Jim Dwyer
Audit Manager
Auditor General
111 W. Madison
Room 401, Claude Pepper Building
Tallahassee, Florida 32399

Dear Mr. Dwyer:

After review of the independent cost benefit analysis completed by Staubach (the State of Florida's newly appointed real estate advisor) the Department has determined the lease-purchase of the administrative headquarters building of the Department of Corrections in Tallahassee, Florida is not in the best interest of the state.

The analysis confirms the Department's concerns with the maintenance issues of the building and the overall purchase price. Based on this independent cost benefit analysis, the Department does not recommend accepting the lease-purchase proposal.

If you have any questions, please advise.

Sincerely,

Richard Prudom
Director of Financial Management

RP/jf

Exhibit C

Analysis of Blairstone Building Lease Purchase

Proposal by The Staubach Company

STAUBACH

A World of Real Estate Knowledge

Analysis of Blairstone Lease Purchase Proposal

for:

Department of Corrections
State of Florida

Prepared By:

Staubach Education and Municipal Services Group

November 18, 2003

STAUBACH

A World of Real Estate Knowledge

Contents

STAUBACH

A World of Real Estate Knowledge

TO: **THE DEPARTMENT OF CORRECTIONS**

FROM: **THE STAUBACH COMPANY**

SUBJECT: **ANALYSIS OF BLAIRSTONE BUILDING LEASE PURCHASE PROPOSAL**

DATE: **NOVEMEBER 18, 2003**

Introduction

In an interview conducted with the Florida Department of Corrections (DOC) and the Florida Department of Management Services (DMS) on October 11, 2003 with a representative of the Auditor General's (AG) office in attendance, The Staubach Company (Staubach) was informed of Blairstone Properties, LLC, June 15, 2003 Lease Purchase Proposal of the Blairstone Buildings located at 2601 Blairstone Road to the DOC.

The DOC further informed Staubach that a comprehensive review of the transaction by the Staubach Company was to be presented and considered by the Department of Corrections, further evaluated by the Auditor General and then submitted to the Joint Legislative Auditing Committee on or before December 1, 2003.

> "From the funds in Specific Appropriation 633, the Department of Corrections, in consultation with the Auditor General, shall conduct a cost benefit analysis and evaluate whether a lease purchase of the administrative headquarters building of the Department of Corrections in Tallahassee, Florida is in the best interests of the State. The Auditor General shall report to the Joint Legislative Auditing Committee its evaluation by December 1, 2003."

As such, Staubach (the State of Florida's newly appointed real estate advisor) was commissioned to conduct a thorough cost benefit analysis of the Landlord's proposal and submit a report of our findings with recommendations to the DOC and the Department of Management Services. Staubach and its partner, Johnson Controls, Inc. (building systems expert) and Staubach Capital Partners (a single tenant building acquisition expert) have completed their reviews of the Landlord's proposal and we have incorporated their thinking as part of our findings and recommendation.

Building Background

The DOC occupies three (3) interconnected buildings totaling 253,524 rentable square feet (RSF) owned by the Landlord located at 2601 Blairstone Road (the Building). The Buildings have been occupied by the DOC since 1990 when the first building was constructed, followed by the next two (2) buildings construction in 1994. Of the total amount leased, 211,979 square feet expires December 31, 2009 with options to extend through 2014. The remaining balance of 41,545 square feet expires in 2004, with options to extend through 2009 with further options to extend to 2014. The DOC stated that the building meets their size, configuration and location needs for the present. However, they have concerns regarding the efficiency of the HVAC system today, and do not believe the buildings will be satisfactory for the proposed twenty (20) year term based on the findings of this report.

Summary of Existing Lease and Landlord's Lease/Purchase Proposal

The primary terms and conditions of the existing two leases lease in effect for the buildings are as follows:

Lease A

Square Feet:	211,979 RSF
Rental Rate:	$17.40/RSF (2004)
Escalations:	Various
Operating Expenses:	Utilities Paid by DOC (Estimated to be $2.01/RSF)
	Janitorial Expenses Paid by DOC (Estimated to be $.25/RSF)
	Grounds Maintenance Paid by DOC (Estimated to be $.05/RSF)
Term Commence:	January 1, 1995
Term Expires:	December 31, 2009
Option to Own:	None
Free Rent:	None

Lease B

Square Feet:	41,545 RSF
Rental Rate:	$16.50/RSF (2004)
Escalations:	Various
Operating Expenses:	Utilities Paid by DOC (Estimated to be $2.01/RSF)
	Janitorial Expenses Paid by DOC (Estimated to be $.25/RSF)
	Grounds Maintenance Paid by DOC (Estimated to be $.05/RSF)
Term Commence:	February 1, 2000
Term Expires:	December 31, 2004
Option to Own:	None
Free Rent:	None

The Landlord's lease/purchase proposal terms are as follows:

Square Feet:	253,524 RSF
Rental Rate:	$17.39/RSF
Escalations:	None (Flat for 20 years)
Operating Expenses:	Paid by DOC
Term Commence:	January 1, 2004
Term Expires:	December 31, 2023
Option to Own:	Yes @ $1 at end of term
Free Rent:	Yes @ Year 1
Lease/Purchase Amt.:	$51,735,000

In summary, the Landlord's proposal offers DOC a flat rental rate of $17.39/RSF for a term of 20 years (14 years longer than current term expiration at the end of 2009), and an option to purchase the Building for a nominal amount of $1.00 at the end of the term. The Lease Purchase amount of $51,735,000 is comprised of a building purchase price of $41,500,000, transaction fees of $863,502, a Debt Service Reserve amount (which can be characterized as a security deposit of $4,283,000, Capitalized Interest Fund of $2,586,750 and a Capital Maintenance Reserve amount of $2,500,000. The Lease Purchase amount will be paid to the Landlord through Certificates of Participation ("COPs"). The annual payments to fund the COPS will be paid by DOC through its annual lease payments. If the State of Florida decides to move forward with the Landlord's offer, then $26 million in rent payments over the term of the lease will be saved per the Landlord. This amount excludes operating expenses to be paid by DOC and future maintenance and repair costs associated with current Building problems.

Current Building Problems

- **HVAC Systems**

  In order to address DOC's concerns regarding the lack of efficiency of the HVAC Systems, Staubach commissioned an analysis of the building mechanical systems by its subcontractor, Johnson Controls, Inc. (please see the attached report). In summary, the current system is comprised of over 263 individual Trane compressors (similar to residential units) that provide heating and cooling to specific spaces throughout the Building. Contrast this to the preferred central chiller system that is more common in a building of this size. While the current mechanical system generally provides adequate cooling, the air quality is poor and the operational issues associated with over 263 individual compressors, filters, dryers, refrigerant lines, etc. are of serious concern. Due to the unusual system design for a building of this size, a Trane representative or other contractor is on site virtually full time to accommodate regular maintenance and repairs. This would be a significant operational maintenance issue for the State if and when the State entered into the proposed lease transaction that transfers maintenance responsibilities to the State and again were the State to become the owner of the Building at the end of the lease term.

Building Design Issue

The State of Florida informed us of a concern they have regarding the area where two of the buildings are joined. Specifically, the normal expansion and contraction of building materials during seasonal weather changes causes the buildings to expand and contract. The magnitude of the expansion and contraction is significant enough that the ceiling grid and tiles have to be adjusted each season, in order to prevent the tiles and/or the grid from dropping (which has happened previously). This does not appear to be a material safety risk, and, going forward, the Landlord and the State of Florida appear to accept this as an inconvenience to be dealt with as a regular maintenance issue. As such, Staubach did not focus its investigation and subsequent recommendation on the expansion joint between the two buildings. Rather, it is our recommendation that a licensed structural engineer be engaged to provide a detailed report concerning the matter, should the State elect to pursue the Landlord's proposal.

Review of Landlord's Proposal - Issues to Consider

In order to fully evaluate the Lease Purchase Proposal from the Landlord, Staubach took into consideration the following issues:

1. Does the useful life of the Building and its component systems meet or exceed the proposed lease term and by what margin? If not, what is the magnitude of the out of pocket costs for the State to bring the base building and systems to a condition satisfactory to the State?

2. What is the Fair Market Value of the Building today and at the expiration of the existing lease term? Is the Landlord's estimate of value consistent with valuation guidelines?

3. Does the Landlord's proposal reflect a reasonable price based upon the State of Florida's excellent credit rating? Is the DOC creating additional value for the Landlord at its own cost?

4. Will the capital maintenance reserve account created as part of the lease purchase be sufficient to cover costs over the 20 year lease term?

Findings of Issues & Recommendations

1. **Issue: Mechanical Systems**

   Johnson Controls Inc.'s report identifies that the Building's mechanical system is a serious operational and air quality concern. If the State of Florida desires to move forward with the long term occupancy of this facility (by lease or purchase), we strongly recommend that the current HVAC system be replaced with a high efficiency central chiller system. A retrofit of this magnitude will have direct short and long term operational effects on the DOC. In the short term, virtually every space within the building will be affected by the construction necessary to accommodate such a retrofit. In the long run, both building efficiency and utility costs should be greatly improved, but at substantial cost.

   - **Recommendation: Mechanical Systems**

     A comparison of the costs of the new system to the ongoing costs of the Trane representative and the repairs and maintenance costs should be performed and evaluated. In addition, the time amount needed and the inconvenience of installing a new system for the entire facility (3 buildings) should also be reviewed on a quantitative basis. We suggest once the cost analysis is performed that either the Landlord reduce the purchase price by the cost of the new system (which is estimated by Johnson Controls to be approximately $8.0 million) or additional funds be added to the capital reserve account to cover the costs of the retrofit over time.

2. Issue: Landlord's FMV

After reviewing the Landlord's proposal, it is apparent that the estimated value of the building was derived based on the income produced by the proposed future lease expiring in Year 2023, and the State of Florida's excellent credit rating. No discount factor was applied in order to adjust for the added value that the State of Florida's credit creates for the Landlord or for the avoidance of risk that the longer term creates for the Landlord.

In addition, when a building is valued, traditional valuation methodology suggests three methods of valuation: a) Income Capitalization Approach, b) Cost Approach and c) Sales Comparison Approach. The three approaches are reconciled to arrive at a final estimate of value taking into consideration any factors that creates and diminishes value. It appears that not all of the three approaches to value were considered, therefore resulting in the lack of a true reconciled value. While the income approach is the most appropriate valuation approach, the Cost Approach and the Sales Comparison Approach must also be considered in order to more accurately estimate the value of the Building. In addition, it appears that the value or proposed offering price provided by the Landlord was not properly calculated based upon appraisal guidelines. Below is a description of the three approaches:

a). The Income Capitalization Approach takes into consideration the current gross rental income that is produced by the building. The expenses of the building are deducted and typically a vacancy and collection loss is also deducted from the gross revenue to arrive at the net operating income (NOI) of the building. A capitalization rate is applied to the NOI resulting in an estimate of value.

b) The Cost Approach includes the estimation of reproduction or replacement cost of the building and land improvements as of the date of the appraisal together with an estimate of losses in value that have taken place due to wear and tear, design and plan (functional obsolesces), or neighborhood influences (economic obsolescence). This results in a depreciated cost. Entrepreneurial profit (if applicable) and the estimated value of the land are added to arrive at the estimated value by the cost approach.

c) The Sales Comparison Approach is based upon the subject property (Blairstone) compared to similar properties that have been sold recently or for which listing prices or offering figures are known. Data for generally comparable properties are used and comparisons are made to demonstrate the probable price at which the subject property would be sold if offered on the market.

- **Recommendation: Landlord's FMV**

If the State chooses to pursue the lease purchase proposal a thorough investigation of markets rents, recently sold properties, and the overall replacement or reproduction costs should be considered to determine the value or offering price. In addition, negotiations should take place between the Landlord and the State of Florida's representative (Staubach), whereby the State of Florida captures some portion of the Building's value (i.e. a discount factor is applied to the income stream created by the DOC's tenancy) or a reduction in value is applied thereby resulting in a even lower lease cost. Of course, the market value of any real property asset is determined by what investors may be willing to pay for such an asset. Of primary concern to any investor is the existing income stream (previously mentioned) and the disposition strategy for the building at some point in the future. Today, the State of Florida occupies approximately 80% of all commercial office buildings in the Tallahassee market. So if the State does not occupy the Blairstone buildings for the long term, the market value of those assets is greatly diminished. In a real estate market environment where the State is contracting for the foreseeable future, the resulting impact on real estate value in Tallahassee will likely be significant. In essence, the State of Florida is creating the market within Tallahassee.

An example of a discount factor that should be applied to the Landlord's current proposal would be to consider the value of the Building at the expiration of the existing lease term as if the Building were vacated by the DOC. At that point in time, the capital markets would determine a purchase price based on the market rents to be achieved versus the investment necessary to re-tenant the space including base building upgrades (mechanical system) if necessary, tenant improvements, broker commissions, legal fees and vacancy during the lease up period. These considerations could be modeled and discounted to a present value at an agreed upon rate of interest.

Also, a value comparison of the Landlord's Lease Purchase Price of the Buildings vs. the construction costs of new buildings at Southwood or some other location would provide a beneficial perspective to the State of Florida. For instance, the all inclusive Lease Purchase Price offered by the Landlord for the Buildings is approximately $204/sf. If the construction costs for Southwood's modern, well constructed facilities with highly efficient mechanical systems and robust infrastructures (electrical distribution, voice and data) is less expensive on a per square foot basis (Approximately $125.00 per square foot) than the existing buildings at Blairstone, then the overall value to the State of Florida is diminished. In essence, the State of Florida can build a higher quality state-of-art building at a lower cost than purchasing a building that is older with inefficiency and eventual functional obsolescence over the next 20 years. It is our opinion that the Lease Purchase proposal advanced by the Landlord is at least10%-15% higher than alternative facilities strategies for the State. Not included in this estimate is the additional cost of a new mechanical system at approximately $8.0 million.

3. Issue: State of Florida's Credit Rating Creating Value for the Landlord

The State of Florida has an excellent credit rating. Any lease obligation presented by the Landlord to a potential investor or financing institution will have a greater value due to lower risk to the Landlord. By extending the lease term period by fourteen years, the State of Florida is creating a more valuable lease due to the elimination of a potential vacancy in Year 2009 by the DOC. Since the Landlord's proposal outlines the issuance of Certificates of Participation (COPS), the value of the Building has increased for the Landlord not the Tenant (DOC) due to the elimination of the unknown future (after 2009), and a set rental rate resulting in a constant or "for sure" income stream. The funds raised through COPs will pay the Landlord for the purchase price, and the State of Florida will be responsible to make payments to cover the annual debt service of the COPs. The payment by the State of Florida will be considered the lease payment. By the end of the 20 year term, the COPs debt service will be paid off resulting in a debt free building. It is our opinion that the Landlord's proposal does not sufficiently reflect the value that the State's lease brings to the transaction. Without the State as tenant, the Landlord's value is significantly diminished, and it is not fair to the State of Florida to recognize this value without applying some sort of discount factor to the income stream produced by the DOC.

- **Recommendation: State of Florida's Credit Rating Creating Value for the Landlord**

  Present a discounted counter-offer to the Landlord reflecting the State's creation of value based upon its credit rating, term extension, and <u>constant</u> income stream.

4. Issue: Capital Maintenance Reserve Account Amount

The Landlord's Lease Purchase Proposal offers the State of Florida a reserve fund for capital maintenance in the total amount of $2.5 million, which covers the entire 20 year term. A thorough assessment of current and future capital expenditures should be performed in order to determine if the $2.5 million is enough to cover the current issues relating to the HVAC system, the building joint issue, and potential future replacements or repairs of the Building's structural and mechanical systems. Since the Building was built in two stages (1990 and 1994), 10-14 years ago, additional components of the Building will need attention over the next 20 years (ie. the roof, building exterior, etc). For example, if the 263 air-conditioning units are removed from the roof in favor of the central chiller system, the roof membrane will need significant repairs and/or replacement. If the $2.5 million is not enough to cover costs currently and over the next 20 years, then the State of Florida will have to pay for the replacements, repairs and maintenance items out of their own state funds.

- **Recommendation: Capital Maintenance Reserve Account Amount**

  As part of the State of Florida's due diligence, a thorough assessment of the Building should be conducted in order to prepare a capital expenditure budget to cover the next 20 years. If the amount is in excess of the $2.5 million reserve fund amount, then a dollar-for-dollar adjustment should be made to increase the Capital Maintenance Revenue Account to cover those potential costs.

Conclusions

After reviewing the Landlord's Lease Purchase Proposal and performing a financial analysis to determine whether the offered Lease Purchase price of $51,735,000 is reasonable, we have concluded that the Lease/Purchase option (capital lease) is an acceptable method of reducing occupancy costs for the State when the purchase price falls in line with market principles. We have described a similar Staubach structured transaction in subsequent sections of this report. The purpose of including this Staubach document is to illustrate that these transactions are gaining in popularity in capital constrained state and local governments, since such transactions are a viable means of reducing cost. However, despite Staubach's concurrence with the validity of the structure of the transaction, it is our opinion that the purchase price is high given traditional valuation principles, current market realities in Tallahassee and the purchasing power of the State. It is Staubach's opinion that other alternatives exist that would be more cost efficient than the proposed lease/purchase proposal. These include but are not limited to constructing a new building on state owned property, other lease alternatives that are generally available in the market or properties that may be available for sale to the State at lower cost.

ALTERNATIVE REAL ESTATE FINANCING FOR STATE AND LOCAL GOVERNMENTS

Overview

Historically, while traditional financing methods were available to a state or local municipality, most governmental users chose to pursue direct tax-exempt debt financing as a method to finance new acquisitions or new construction projects. Accessing the tax-exempt markets directly does have certain limitations, however, and other economically viable alternatives are available. Staubach Capital Partners ("SCP") is committed to presenting creative opportunities to reduce facility costs for State and local governments. In addition, SCP can serve as an intermediary in obtaining control of real estate in order to more efficiently finance those projects. There are two primary alternatives to traditional financing methods: 1) a tax-exempt Capital Lease structure, where the government user (the "Government Lessee") leases a facility through a financing lease from an entity established by SCP that holds nominal title to the leased property, and then sells interests in this Capital Lease on a tax-exempt basis, thus generating the funds to purchase the facility, and 2) a Credit Tenant Lease ("CTL") structure, where SCP utilizes taxable debt to purchase the facility, but because of today's low interest rate environment, is able to present a viable low-cost true lease alternative to the Government Lessee.

Tax-Exempt Financing

Tax-exempt transactions are financing mechanisms used by qualified public issuers such as states, municipalities, counties, public colleges, and universities. Funds may be borrowed for short terms or, more typically, for up to thirty years. Since the federal government does not tax the interest on such obligations, interest rates on tax-exempt debt are lower than those found in traditional taxable debt issuances.

States, municipalities, counties, public colleges, and universities are considered political subdivisions for federal income tax purposes, which enables them to issue tax-exempt debt directly for financing purposes. Private colleges and universities can access tax-exempt funds indirectly as borrowers from higher education or economic development authorities. Tax-exempt financing for real estate needs is an attractive alternative to traditional financing methods for these entities.

Capital Lease Financing with Tax-Exempt Funds

One structure available to the Government Lessee would be a tax-exempt Capital Lease financing structure. SCP would set-up a trust or other pass-through entity to acquire and hold nominal title in the real estate asset. Funds for the purchase of this real estate would be derived from the issuance to investors by the trust of Certificates of Beneficial Interest or Participation in the lease of the real estate to the Government Lessee structured as a long-term capital lease. This lease would provide for a nominal purchase option by the Government Lessee at the end of the lease term, and would thus be classified as a Capital Lease, which is considered a financing for federal income tax purposes. Since the lessee is a governmental entity, the portion of the rental payments under the Capital Lease that reflects the "interest element" of the financing is tax exempt. As such, annual rental expense for the Government Lessee reflects this lower debt cost.

In most cases, this type of lease is not subject to voter approval because it is subject to annual appropriation and is not treated as debt under local law. As such, a Capital Lease does not impact the availability of other tax-exempt financing for the Government Lessee for other purposes. The Government Lessee achieves the benefits of ownership of the facility without the use of cash or borrowed funds, which can be re-directed to other more critical projects. In addition, the overall impact to the credit of the Government Lessee is less than would be the case with a direct debt instrument.

In addition to the structure outlined above, other tax-exempt lease alternatives are available, including a structure involving the creation of a 501(c)(3) entity or state non-profit entity; however, these structures generally create a greater administrative burden and cost for all parties.

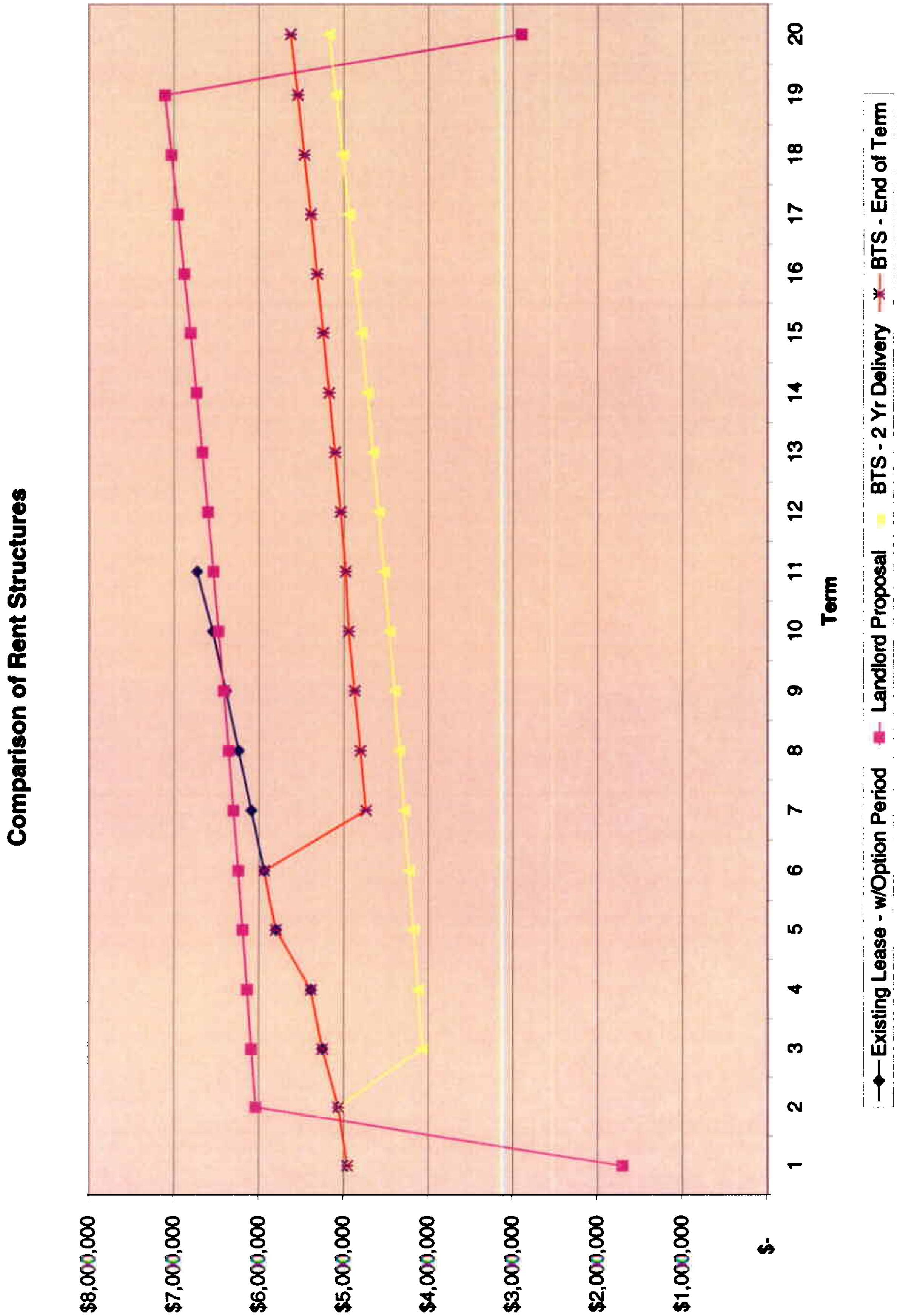
In conclusion, Capital Lease tax-exempt financing is an attractive alternative for Government Lessees in today's difficult economic times.

Credit Tenant Lease Financing

As the capital markets have become more sophisticated over the last ten years, many credit-worthy corporate users have turned to the Credit Tenant Lease structure to lower their overall facilities cost. This structure utilizes a true lease, which allows the lender to look at the credit-worthiness of the tenant in pricing the debt used by the owner of the real estate. Under this structure, SCP would provide both the entity and the equity for the transaction, although these transactions are highly leveraged. Virtually all of the economic benefit of these transactions is derived from this debt financing, the cost of which is significantly lower than that from traditional debt sources.

The Credit Tenant Lease structure can be applied to any governmental or educational entity that has an investment grade rating with one of the rating agencies or that would qualify as investment grade. The lease terms typically range from 15 to 25 years, with favorable renewal options. Unlike the Capital Lease tax-exempt structure, no bargain purchase option is required at the end of the lease term. Since these transactions are effectively credit financing transactions, they can be closed in as few as 30 days. With 10-year Treasury obligations at historic lows, the economics of this structure has become very compelling for corporate users and can be utilized by non-corporate governmental entities that have limited access to tax-exempt funds.

Once again, the debt obligation under this structure should be treated as having less of an impact on the Government Lessee's credit rating than would a direct debt obligation.


Comparison of Rent Structures
$8,000,000
$7,000,000
$6,000,000
$5,000,000
$4,000,000
$3,000,000
$2,000,000
$1,000,000
$-
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Term
Existing Lease - w/Option Period
Landlord Proposal
BTS - 2 Yr Delivery
BTS - End of Term

CONSTRUCTION COST ESTIMATES

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Cost escalated at 3.5% per year	$ 125.00	$ 129.38	$ 133.90	$ 138.59	$ 143.44	$ 148.46	$ 153.66	$ 159.03	$ 164.60	$ 170.36	$ 176.32
Construction costs estimated per Randall Baker DMS											
Operating Expenses Paid by Corrections at Blairstone											
Utilities @ $40,000 - 45,000 per month	$ 2.01										
Janitorial (Provided by DOC)	$ 0.25										
Grounds Maintenance (Provided by DOC)	$ 0.05										
	$ 2.31										
Operating Expenses per Janie Flack											

Cashflow Comparison (Landlord Proposal vs. Replacement Cost)		
Landlord Sale / Leaseback Proposal	$57,812,828	100.0%
New Build To Suit - Replacement Cost Today	$ 32,958,120	-43.0%
New Build To Suit - 2 Years Existing Lease + Replacement Cost	$44,737,262	-22.6%
New Build To Suit - Replacement Cost at Lease Expiration Date (LED)	$ 39,143,908	-32.3%
New Build To Suit - Remaining Obligation + Replacement Cost at LED	$51,141,443	-11.5%

Scenario Analysis
Stairstone Buildings
Prepared by : Staubach
18-Nov-03

Existing Leases	2004	2005	2006	2007–2023
Existing Rent Obligation	$ 17.40	$ 17.74	$ 18.36	[illegible]
Operating Expenses	$ 2.31	$ 2.38	$ 2.48	[illegible]
Maintenance Reserve	$ -	$ -	$ -	[illegible]
Total Occupancy Costs PSF	$ 19.71	$ 20.13	$ 20.87	[illegible]
First Lease Occupancy Costs	$ 4,176,480	$ 4,267,879	$ 4,433,215	[illegible]
Existing Rent Obligation	$ 16.50	$ 16.84	$ 17.46	[illegible]
Operating Expenses	$ 2.31	$ 2.38	$ 2.48	[illegible]
Maintenance Reserve	$ -	$ -	$ -	[illegible]
Total Occupancy Costs PSF	$ 18.81	$ 19.22	$ 19.97	[illegible]
Second Lease Occupancy Costs	$ 761,830	$ 780,616	$ 800,350	[illegible]
Total Occupancy Costs	$ 4,938,004	$ 5,008,004	$ 5,253,715	[illegible]
Net Present Value @ 8%	$48,801,413			

Existing Stairstone Sale / Leaseback Assumptions			Per SF
Building Rentable Square Feet	253,524		
First Lease Square Footage	211,879		
Second Lease Square Footage	41,345		
Building Purchase Price	$ 41,300,000	$	163.89
Capitalized Interest Fund	$ 2,586,750	$	10.20
Deposit to Debt Service Reserve Fund	$ 4,283,000	$	16.89
Deposit to Capital Maintenance Reserve Funds	$ 2,500,000	$	9.86
Financing Costs	$ 863,502	$	3.41
Rounding Amount	$ 1,748	$	0.01
	$ 51,735,252	$	204.06

Landlord Sale / Leaseback Proposal	2004	2005	2006	2007–2023
New Rent Obligation	$ -	15.89	15.89	[illegible]
Operating Expenses	$ 6.25	$ 6.44	$ 6.63	[illegible]
Maintenance Reserve	$ 0.50	$ 0.50	$ 0.50	[illegible]
Deposit to Debt Service Reserve Fund				[illegible]
Total Occupancy Costs PSF	$ 6.75	$ 22.83	$ 24.02	[illegible]
Total Occupancy Costs	$ 1,711,287	$ 5,645,843	$ 5,988,805	[illegible]
Net Present Value @ 8%	$57,812,828			

New Build To Suit Assumptions			Per SF
Project Cost	$ 31,660,300	$	125.00
Land	$ -	$	-
Structuring Fees	$ 1,267,820	$	5.00
Total Project Cost	$ 32,958,120	$	130.00
Cost of Capital	4.0%		
Lease Term	20		
Amortization	20		
Lease Payment	$2,396,837		
Rent PSF	$ 9.45		

New Build To Suit - 2 Years of Remaining Obligation	2004	2005	2006	2007–2023
New Rent Obligation			$ 9.45	[illegible]
Operating Expenses			$ 5.83	[illegible]
Maintenance Reserve			$ -	[illegible]
Total Occupancy Costs PSF			$ 19.08	[illegible]
Total Occupancy Costs	$ 4,939,004	$ 5,008,004	$ 4,077,658	[illegible]
Net Present Value @ 8%	$44,737,262			

New Build To Suit Assumptions (End of Term)			Per SF
Project Cost	$ 37,636,373	$	148.48
Land	$ -	$	-
Structuring Fees	$ 1,505,535	$	5.94
Total Project Cost	$ 39,143,908	$	154.40
Cost of Capital	4.0%		
Lease Term	20		
Amortization	20		
Lease Payment	$2,846,402		
Rent PSF	11.22		

New Build To Suit - Remaining Obligation + Replacement	2004	2005	2006	2007–2023
Rent Obligation	$ -	$ -	$ -	[illegible]
Operating Expenses	$ -	$ -	$ -	[illegible]
Maintenance Reserve	$ -	$ -	$ -	[illegible]
Total Occupancy Costs PSF	$ -	$ -	$ -	[illegible]
Total Occupancy Costs	$ 4,939,004	$ 5,008,004	$ 5,253,715	[illegible]
Net Present Value @ 8%	$51,141,443			

STATE OF FLORIDA COST COMPARISON		
Landlord Sale - Leaseback Proposal	$ 57,813,828	100.0%
New Build To Suit - Replacement Cost Today	$ 32,958,120	-43.0%
New Build To Suit - 2 Years Existing Lease + Replacement Cost	$ 44,737,262	-22.6%
New Build To Suit - Remaining Obligation + Replacement Cost at LED	$ 51,141,443	-11.5%

STAUBACH CAPITAL PARTNERS				
Purchase Price		Rental Rate	Oper Exp & RE Tax	Gross Rent
$	41,800,000	$12.34	$ 6.25	$18.59
$	46,000,000	$13.60	$ 6.25	$19.85
$	51,700,000	$15.38	$ 6.25	$21.63

Building Evaluation Focusing on HVAC, Lighting and Plumbing System Performance at Department of Corrections 2601 Blairstone Rd. Tallahassee, Florida

November 5, 2003

prepared by:
Scott Forsyth, P.E., CIAQP
Johnson Controls, Inc.
8245 Bayberry Road
Jacksonville, FL 32256
(904) 732-5440
Report No.: BE.DOC

Table of Contents

November 20, 2003

1. Executive Summary

A preliminary building survey and evaluation was performed that focused on the building's (1) heating, ventilating and air conditioning (HVAC) systems, (2) lighting systems and (3) plumbing systems. The building survey and evaluation was performed by Scott Forsyth, PE, an Indoor Environment Engineer with Johnson Controls, Inc. The building survey and evaluation focused on the performance and efficiency of the existing systems as well as the potential for improvements.

The most significant finding was that the building has significant indoor air quality (IAQ) related concerns, some of which require immediate attention. Currently, raw outdoor air that has not been dehumidified *nor filtered* is being dumped into Building A's ceiling plenum cavity (space between the acoustical tile ceiling and the floor above). The air being dumped into Building C's ceiling plenum cavity is filtered only coarsely with permanent filters and is not dehumidified as well. The building has high relative humidity levels in areas at times and it was reported that mold and musty smells have been observed. The existing HVAC system is not capable of providing adequate quantities of dehumidified outdoor ventilation air. In addition, the outdoor air distribution system is inadequate.

The HVAC system consists of an extremely large number (263) of small packaged air cooled air conditioning units that are more appropriately applied to residential applications than a large commercial multi-story office building. In this engineer's 25 years of experience, a similar installation of extremely large numbers of small packaged units in a large office building has never been encountered before. The existing HVAC system may be considered to be a "white elephant" as currently applied to this building. System performance from an IAQ standpoint is relatively poor and the large number of very small units creates very large maintenance requirements. Service access is an issue on the existing small fan coil units that are located above the ceiling. However, the existing HVAC systems are relatively energy efficient.

The lighting system consists of standard commercial fluorescent lighting fixtures and appeared to provide adequate lighting levels. The existing fluorescent lighting fixtures are equipped with older style lamps and ballasts and significant operational savings could be obtained from an energy efficiency retro-fit project.

Plumbing fixtures are similar to the lighting in that they are older style fixtures that consume significantly larger quantities of water than those meeting current standards.

Several facility improvement options could be implemented to address the above concerns and are described in the section that follows.

2. Recommendations

Recommendations for consideration that will promote a more comfortable, productive and healthy office work environment and lower utility operating costs include the following. Improvement options have varying costs and benefits that must be weighed in making a final decision.

1. Install filters in the fresh air supply fans that serve Buildings A and C. Preferably, filters should have a minimum 30% efficiency, the current ASHRAE minimum recommendation for this application.
2. The outdoor air supply and restroom exhaust systems should be checked and modified so that test and balance may be performed to design/required quantities. The building should be balanced so that the building operates at a neutral or slightly positive pressure (outdoor air supply exceeds exhaust).
3. Perform mechanical system modifications so that outdoor air ventilation may be maintained on a continuous basis with good dehumidification performance. Concurrently, increase outdoor air ventilation rates to meet current ASHRAE 62 requirements. The most basic option that could be implemented relatively easily and quickly would be to install pre-conditioning outdoor air units on the roof that would replace the existing outdoor air supply fans with filters on Buildings A and C. This approach was implemented on Building B several years back due to humidity concerns in Building B. However, the capacity and design of the Building B pre-conditioning outdoor air unit is inadequate and it should be considered for replacement as well.
4. Install additional outdoor air supply ductwork in the ceilings to insure that all areas and each individual air conditioning unit receive the recommended quantity of outdoor ventilation air recommended by current ASHRAE Standards. Currently, the outdoor air is dumped into the plenum cavity at a few locations on each floor rather than being ducted to each unit.
5. Until preconditioning outdoor air units described previously are installed, it is recommended that all AC equipment thermostats (Alerton DDC controllers) be set to the "auto/cycle" supply fan sequence to enhance dehumidification, particularly during the cooling season.
6. Implement an optimized start up strategy that insures spaces are comfortable when occupants arrive in the morning to achieve HVAC operational savings (existing HVAC systems are currently scheduled to operate 24 hours per day).
7. Long term, consideration may be given to replacement of the entire existing HVAC systems with conventional large commercial office building HVAC equipment. This could include central station air handling units (AHUs) and a variable air volume (VAV) air distribution system. New and larger centralized VAV AHUs offer a number of IAQ related benefits over the existing small packaged DX equipment including (1) service access to large central AHUs that could be roof mounted or located in equipment rooms would be far superior to the exiting ceiling cavity

mounted units, (2) maintenance requirements would be reduced significantly with fewer larger pieces of more durable equipment to maintain, (3) internal AHU surfaces may be sheet metal in lieu of fiberglass liner (existing liner cannot be easily cleaned), (4) higher efficiency filters may be utilized, (5) positively sloped stainless drain pans and (6) large hinged access doors to more accessible components. The service life of the larger commercial equipment associated with this option would be significantly longer, approximately 20 to 25 years, as compared to 15 years for the existing equipment (according to the ASHRAE Handbook). Replacement of the existing supply ductwork that is constructed of fiberglass duct board with more durable sheet metal that may be cleaned would be beneficial.

8. Perform a lighting efficiency retro-fit project to reduce lighting system operating costs and address recommended lighting levels.
9. Perform a plumbing water conservation project to reduce water consumption and associated costs.

3. Findings and Analysis

3.1 Heating, Ventilating and Air Conditioning (HVAC) Systems

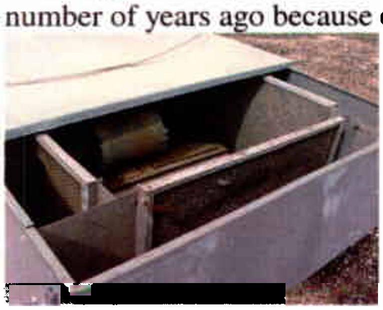


The building is served by a total of 263 small packaged direct expansion units that consist of an indoor fan coil unit located in the ceiling cavity that is piped to an outdoor condensing unit, most of which are located on the roof. Each unit has reverse cycle heat pump capability with back up electric resistance heat. Individual units vary in capacity but the vast majority of the units are nominally 3 tons cooling capacity. Therefore, the total installed cooling capacity for the entire building is approximately 800 tons.

System performance from an IAQ standpoint is relatively poor and the large number of very small units creates very large maintenance requirements. Service access is an issue on the existing small fan coil units that are located above the ceiling. The existing units are relatively low grade (residential) quality with an anticipated life of approximately 15 years (ASHRAE Handbook) such that most of the existing HVAC equipment is near the end of its service life.

An important function of the HVAC system is to ventilate the building by introducing outdoor air in order that indoor air contaminant levels and odors may be controlled. ASHRAE Standard 62-2001 (ASHRAE 62), Ventilation for Acceptable Indoor Air Quality, has minimum ventilation rate recommendations.

Outdoor ventilation air is provided by roof mounted supply fans on Buildings A and C. Building B is equipped with a preconditioning outdoor air unit that was installed a number of years ago because of humidity concerns. This equipment is pictured below.



As indicated in the second picture above, the service clasps on Building A's outdoor air supply fans intake and a portion of the filter rack had failed and screws were installed on the cover. This makes the filters relatively inaccessible and none were installed on the unit during the survey, not even permanent filters/screens. Therefore, raw outdoor air that has not been dehumidified ***nor filtered*** is being dumped into Building A's ceiling plenum cavity (space between the acoustical tile ceiling and the floor above). The air being dumped into Building C's ceiling plenum cavity is filtered only coarsely with permanent filters and is not dehumidified as well.

High relative humidities in the building, either in the indoor air or in building materials such as ceiling tiles and exterior walls, are of concern. Relative humidities above approximately 65% RH are favorable for microbiological (such as mold) growth. ASHRAE recommends relative humidities be kept below 60% for this reason.

As depicted above, the acoustical ceiling tiles were observed to have significant sag in some locations, an indicator that relative humidity levels inside the building have been chronically high for some period of time. In addition, staff reported mold growth and musty smells in some areas of the building but none were observed during this audit. Also, in an attempt to lower humidity levels, a number of areas have been equipped with humidistats. These cause the supplemental electric resistance heat in the associated unit to come on and create an additional sensible load to force the AC unit to operate in cooling when humidity levels are excessive. However, this type of electric reheat humidity control is inefficient and is considered a band aid solution in this application.

A concern with this building being served by packaged DX equipment is that the associated thermostats (Alerton controllers) generally have a supply air fan control sequence that may be set to either "auto/cycle" or "on/continuous". In the "auto/cycle" sequence, the indoor supply air fan cycles with the compressor and in the "on/continuous" position, the supply fan operates continuously. If "on/continuous" is selected, supply air ventilation is maintained. However, if "on/continuous" is selected, dehumidification performance can be very poor at part load since much of the moisture that condenses on the evaporator coil is subsequently evaporated off the coil and blown back in to the space when the compressor cycles off. Depending on the season and degree of over sizing, this supply air fan sequence selection can cause space relative humidity levels to vary as much as 15%. With the current installation, one must choose between maintaining continuous ventilation with the "on/continuous" fan sequence selected or lower relative humidity levels with "auto/cycle" selected. It was observed during this audit that the supply fans had been set to operate in the "on/continuous" mode, probably to enhance comfort (most people will be more comfortable with continuous air movement). However, this setting can be a significant contributor to high space relative humidity levels.

Based upon many more serious IAQ related complaints in Florida having been the result of microbial (mold) contamination associated with high relative humidity levels rather than a lack of continuous ventilation, the "auto/cycling" is the recommended setting. However, a long term solution is to perform major mechanical system modifications so that both continuous ventilation and good dehumidification performance may both be maintained. Installation of quality pre-conditioning outdoor air units that can effectively dehumidify the outdoor air before it is introduced into the building would be a good option that can be relatively easily and quickly implemented. It should be noted that the outdoor air quantity introduced by the Building B unit is inadequate and it does not dehumidify the outdoor air as well as it should such that this unit should also be considered for replacement.

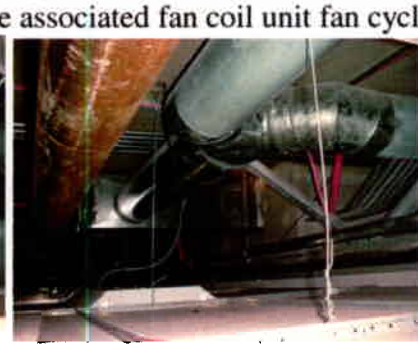
The direct measurement of the outdoor air ventilation quantities at the three outdoor air supply systems on the roof was made during the recent on site survey. In addition to outdoor air ventilation measurements, Department of Corrections staff provided an estimate of the current maximum occupancy of the entire building. This estimate allowed the calculation of the outdoor air ventilation quantity that is recommended by ASHRAE 62 (Table 2 generally requires 20 CFM per person in office areas). These results may also be found in the Table that follows.

Table of HVAC System Outdoor Air Ventilation Rates

Bldg.	TIME (11/3/03)	OUTDOOR AIR VENTILATION QUANTITY				ESTIMATED CURRENT MAXIMUM OCCUPANCY
		Design CFM (1)	Measured CFM (2)	Recommended CFM (3)	Actual / Recommended % (4)	
A	12:00 pm	NA	1,580	NA	NA	NA
B	1:00 pm	NA	3,750	NA	NA	NA
C	2:00 pm	NA	2,070	NA	NA	NA
Total	NA	NA	7,400	18,500	40 %	925

Notes:
(1) Design values were obtained from the original construction plans where available. NA indicates not available or not applicable.
(2) Actual outdoor air quantities in CFM were measured in the "as found" condition.
(3) Recommended total outdoor air CFM is an estimate based upon ASHRAE 62 Table 2 (generally 20 CFM per person).
(4) This is the ratio of the actual to recommended outdoor air CFM.

Based upon the measurements and total building occupancy provided by staff, the building is currently provided outdoor ventilation air at approximately 40% of that recommended by ASHRAE 62, Ventilation for Acceptable Indoor Air Quality. However, the distribution of the outdoor air is not uniform to all areas/units. The outdoor air distribution system on each floor is inadequate as the outdoor air is not directly ducted to each unit but is simply dumped in the ceiling cavity at a few locations on each floor as depicted in the picture below. If an appropriate preconditioning outdoor air unit is installed on the roof, the outdoor air supply ductwork could be extended to each unit to insure all areas receive outdoor ventilation air in accordance with ASHRAE 62. The new outdoor air supply could be ducted to the supply duct of each unit so that it would be distributed to each occupied space even if the associated fan coil unit fan cycled off.



Another function of the ventilation system is to maintain desirable building pressurization relationships. The inside of the building should be slightly pressurized as compared to outside and spaces such as rest rooms should be at a negative pressure as compared to adjacent spaces. Relative building pressurization relationship observations, measurements and findings include the following:

1. Overall building pressurization was qualitatively observed at the cracks at exterior doors. The building appeared to be operating at approximately neutral pressure. However, exhaust air quantities in Building B appear to be slightly larger than the outdoor air that is introduced, an unfavorable condition.
2. Supply and exhaust air quantities were spot measured in 4 restrooms in Building B and the exhaust was found to exceed the supply in each restroom. This causes the restrooms to be at a negative pressure relative to adjacent spaces, a favorable condition
3. Rest room exhaust quantities were measured in a total of 8 restrooms. Exhaust quantities were found to vary significantly indicating the systems were out of balance and/or have operational problems. For example, 4 restrooms in Building B averaged 195 CFM exhaust. In comparison, two men's restrooms in A that are larger than those in B were found to have 100 and 265 CFM exhaust. Two women's restrooms in A that are the same size as the men's restrooms in A were found to be exhausting only 80 and 70 CFM exhaust. The systems should be checked and modified so that test and balance may be performed to design/required quantities.

A direct digital energy management control system manufactured by Alerton is installed. Also, the existing HVAC systems are relatively energy efficient. However, the HVAC systems are currently scheduled to operate 24 hours per day. Staff believed they are scheduled for continuous operation in the cooling season as some areas are not able to achieve comfortable conditions if they are shut down at night. Some HVAC operational savings could be obtained by implementing an optimized start up strategy that insures spaces are comfortable when occupants arrive in the morning.

3.2 Lighting Systems

The facility utilizes different types of lighting sources, primarily fluorescent but there are also some incandescent and HID light fixtures. Many of the existing fixtures could be retro-fitted to improve efficiency, to improve the quality of the lighting and to achieve more standardization (reduce inventory of spare lamps required).

A majority of the interior lighting was fluorescent lighting fixtures. Numerous interior fluorescent fixtures were examined and most all of the fixtures are standard T12 lamps, generally 4 foot long with standard magnetic ballasts. Some small recently renovated sections of the building have high efficiency T8 lamps and electronic ballasts. The existing older technology fixtures may be retro-fitted with high efficiency T8 lamps and electronic ballasts.

Some of the interior lighting is very inefficient incandescent lighting, such as the exit signs. In addition to being costly to operate, incandescent lamps have a very short life and frequent replacements cause maintenance labor requirements to be high.

Automatic lighting controls could be installed for additional savings, such as the use of day-lighting in select areas such as the parking garage depicted above.

The economics of a lighting retro-fit project should be favorable for this facility based upon data gathered. In addition to reducing energy operating costs, a lighting retro-fit will reduce maintenance requirements and costs significantly. Currently, the older fluorescent lamps and ballasts have to be replaced on a frequent basis. New and reliable electronic ballasts are available with a 6 year warranty that includes a labor allowance in addition to material replacement. With all new lamps and ballasts, it would be a number of years before any significant replacement was necessary.

A lighting retro-fit could address any lighting deficiencies and needs that may exist in the facility, such as increasing lighting to recommended levels in areas with sub-standard lighting. However, it appeared that most areas had more than adequate light. For example, light levels in the corridors were measured and found to average 16 foot candles, well above minimum Illumination Engineering Society recommendations. Lighting in these areas could be permanently reduced (simply removing some existing lamps is not recommended).

3.3 Plumbing Systems



A number of opportunities were identified to reduce water and sewer charges.

The existing older (installation prior to 1996) style plumbing fixtures consume greater quantities of water with each flush or use as compared to current standards. Lavatories may be equipped with aerators and automatic self closing faucets where they are not already so equipped. Plumbing fixtures may be replaced with fixtures that are designed to flush effectively while consuming significantly less water. A reduction in hot water usage will lower costs associated with the numerous hot water heaters in the building and the need for hot water is questionable except in handicap accessible stalls.

Water service types, meter sizes and rates could be analyzed in detail in a comprehensive water conservation project to minimize water and sewer charges.