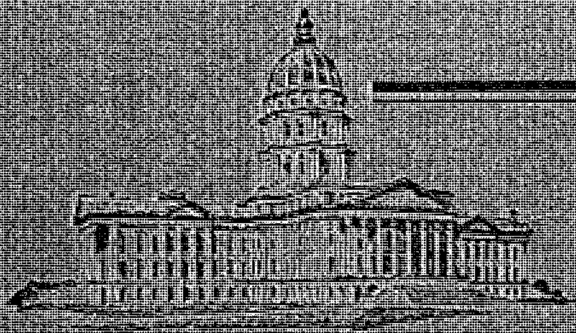

PERFORMANCE AUDIT REPORT

Alternatives to State Ownership Of the Santa Fe Building

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas

January 1985

Legislative Post Audit Committee

Legislative Division of Post Audit

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PERFORMANCE AUDIT REPORT

ALTERNATIVES TO STATE OWNERSHIP OF THE SANTA FE OFFICE BUILDING

This audit was conducted by Ellyn Rullestad, Senior Auditor, and Cindy Lash, Auditor, of the Division's staff. They were assisted by Randy Tongier, Financial and Compliance Audit Manager for the Division. If you need any additional information about the audit's findings, please contact Ms. Rullestad at the Division's offices.

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Summary of Legislative Post Audit's Findings

What are the estimated costs to the State of owning, renovating and maintaining the Santa Fe Office Building? Assuming that the acquisition will be financed over a period of 20 years through a loan from the Pooled Money Investment Board, the State's cost for fiscal year 1986 will be approximately $16.29 per net square foot. Besides financing costs, this figure includes an imputed annual cost for renovations, plus an $8.87 per square foot charge for utilities, maintenance, security, and custodial services. Over the life of the loan, the total costs would average approximately $20.54 per square foot per year.

How do the estimated costs of the Santa Fe Office Building compare with costs in other State space that is owned or leased. For the first part of this analysis, the auditors were limited to an examination of operating and maintenance expenditures. The operating and maintenance expenditures of the Santa Fe Office Building are not expected to be substantially different from those in other State-owned office space. For example, Santa Fe's estimated operating costs of $8.87 per net square foot for fiscal year 1986 are only slightly higher than the estimated 1986 operating costs of $8.42 per square foot for the State Office Building.

The auditors also compared the level rent rates charged to agencies housed in State-owned office space with the lease charges of agencies that rent space from private landlords. For fiscal year 1984, the level rent charge was $8.75 per square foot, compared with an average of $6.43 per square foot for rented office space.

What are the advantages to the State of allowing a private developer to purchase the building and lease it back to the State? Using a number of assumptions, the auditors estimated the costs to the State under three different scenarios: buying and operating the building itself, leasing the building from a private developer under a true lease, and leasing it from a private developer under a conditional-sales agreement. The State's estimated average annual costs to own and operate the building would be $20.54 per square foot over a 20-year period. Excluding any developer profit and assuming that all tax savings would be passed on to the State, the auditors estimated that the minimum lease costs under the two private-sector alternatives would be $14.45 and $15.51 per square foot per year, respectively. Under these assumptions, then, it appears a lease option could be a less costly alternative to the State that is worth investigating further.

ALTERNATIVES TO STATE OWNERSHIP OF THE SANTA FE OFFICE BUILDING

At its meeting on October 15, 1984, the Legislative Post Audit Committee approved a request for an audit relating to the Santa Fe Office Building. The purpose of the audit was to determine whether it was more economical for the State to purchase the building or for a private developer to purchase the building and lease it to the State.

The audit addresses three main questions:

1. What are the estimated costs to the State of owning, renovating, and maintaining the Santa Fe Office Building?

2. How do the estimated costs of the Santa Fe Office Building compare with costs in other State space that is owned or leased?

3. What are the advantages to the State of allowing a private developer to purchase the building and lease it back to the State?

To answer these questions, the auditors compiled information about office space from the Department of Administration and from other State agencies. In addition, the auditors conducted interviews with private sector financial experts who were able to provide information relating to available tax incentives and financial modeling techniques.

The first section of this report provides some background on the history of the State's involvement with the Santa Fe Office Building and provides the State's estimated costs for the Building. Section two provides information on the costs of other State-owned and leased office space in Topeka. Operating and maintenance costs are examined in detail. The final section of the report addresses the third question. Using a number of assumptions, the auditors compare the costs to the State of owning or leasing the Santa Fe Office Building.

What Are the Estimated Costs to the State of Owning, Renovating, and Maintaining the Santa Fe Office Building?

The State has been considering the feasibility of purchasing the Santa Fe Office Building since early 1981, when officials from the Santa Fe Railway Company met with officials from the Department of Administration to discuss that possibility. In February 1982, the State obtained three appraisals of the Santa Fe Office Building. Later that month, the Secretary of Administration appointed a Special Committee on the Santa Fe Building to review the space needs of the State, to analyze all aspects of the acquisition of the Santa Fe Office Building, and to analyze the possibility of selling the State-owned buildings at 503 and 535 Kansas Avenue. The Committee's study was completed April 1, 1982.

The study analyzed a number of different scenarios in evaluating ways to meet the projected space needs of the State. At the time, it was projected that the State would need an additional 213,000 square feet of office space if the buildings on the 500 block of Kansas Avenue were sold. Special consideration was given to the Division of Information Systems and Communications' need for more space and for better utility and support systems. In addition, there was an overriding objective of consolidating State agencies and functions.

The Santa Fe Building is attractive to the State for a number of reasons. It is located near the Capitol Complex and is large enough to meet the objective of consolidating many State agencies and functions. The building has 352,626 gross square feet and roughly 272,530 net rentable square feet. In addition, it has up-to-date computer-support facilities and equipment.

After a careful analysis of the costs of several new construction alternatives, the study recommended that the State acquire the Santa Fe Office Building and divest itself of 503 and 535 Kansas Avenue. The 1982 Legislature adopted those recommendations and authorized the purchase.

The agreed purchase price for the Santa Fe Office Building was $11,245,000. This amount included about $450,000 for the land and about $4,560,000 for the building. The remaining $6,235,000 represents the price of the installed computer-support equipment. This equipment includes such things as raised flooring, special environmental systems, security doors, standby generators, and the like. The State also estimated that it would cost just over $5.0 million to renovate the Santa Fe Office Building for State occupancy. Thus, the total cost will be a little over $16 million.

Several Mechanisms Have Been Explored For Financing the Building's Purchase

The 1982 Legislature provided for the purchase of the Santa Fe Building through a loan from the Pooled Money Investment Board. Legislation passed in 1983 also gave the State the authority to issue revenue bonds as an alternative means of financing the purchase. As late as December 1984 a third financing mechanism was being explored. The Department of Administration issued a request for proposal to solicit proposals from private developers who would buy and renovate the Santa Fe Office Building and then lease it back to the State. At the end of the lease term, the State would have the option to buy the building at a nominal price. Interest in this option was piqued by the State's recent lease arrangement with the developers of the old Crane Junior High School Building. The Crane Building was purchased by private developers, completely renovated, and leased to the Kansas Bureau of Investigation under apparently favorable lease terms. Those terms will be discussed later.

Unless one of the other options is selected later, the current financing proposal assumes that the land, building, and computer-support equipment will be purchased by a loan from the Pooled Money Investment Board. The renovations will be funded through direct appropriations from the State General Fund. After an agreement to purchase the building was reached between Santa Fe and State officials in March 1983, the purchase price of $11,245,000 was withdrawn from the State Treasury's inactive account moneys. The inactive account interest rate at that time was 7.9 percent which, by statute, is the rate the State is obligated to pay on the borrowed funds. Until the State takes possession of the building (scheduled for between March 1 and September 1, 1986), the money to pay for the building will remain in an escrow account earning interest. After the State pays Santa Fe for the building and pays the Pooled Money Investment Board the interest accrued on the loan, any remaining moneys will be available to help defray the costs associated with moving into the Building.

Annualized operating costs for maintenance, custodial services, utilities, and security for the Santa Fe Building for fiscal year 1986 are estimated to be about $2.4 million, or $8.87 per net square foot. In addition, the State will have annual financing costs on the $11.245 million purchase price averaging approximately $1.0 million over a 20-year period, or $3.78 per net square foot per year. (Actual financing costs for the acquisition on a square footage basis will range from a high of $5.32 per square foot in the first year to a low of $2.23 per square foot in the 20th year.) Finally, if the renovation costs were capitalized at 9.5 percent over the same 20-year period, they would average about $571,000 per year, or $2.10 per net square foot.

In total then, the cost to the State for buying the Santa Fe Office building will be approximately $16.29 per square foot in fiscal year 1986. Those costs will average approximately $20.54 per square foot per year over the life of the loan. Further details on these costs are provided in section three of the report.

How Do the Estimated Costs of the Santa Fe Office Building Compare With Costs in Other State Office Space That is Owned or Leased?

Most State agencies included in this review are housed in the four major State-owned office buildings or in office space leased from private owners. Other agencies do own buildings throughout the State. Most notable are the Board of Regents' institutions, the correctional facilities, and the State hospitals. Costs of operating these buildings were not examined by the auditors because they are not used primarily for office space.

Because all the State-owned office space examined by the auditors is already paid for, no debt service is added to the rents. Consequently, the following section compares the actual costs of maintaining and operating various State-owned office buildings with the comparable operating and maintenance costs for the Santa Fe Office Building.

Operating and Maintenance Costs For the Four Major State-Owned Buildings Are Not Substantially Different From Similar Projected Costs For the Santa Fe Building

The four major State-owned buildings are as follows:

1.	State Office Building	Houses executive branch agencies
2.	Forbes buildings (728, 729, 730, 731, 740)	Houses the Department of Health and Environment
3.	State Capitol	Primarily houses legislative and executive branch offices
4.	Judicial Center	Primarily houses the judicial agencies

The first two--the State Office Building and the Forbes buildings--are under the jurisdiction of the Department of Administration. Agencies in these buildings are charged a level rent that is designed to cover operating and maintenance expenditures as well as provide for a maintenance reserve fund. (Agencies that are housed at 503 Kansas until the State takes possession of the Santa Fe Building are also charged this level rent.) In fiscal year 1984, the level rent charge per square foot for this type of space was $8.75. In fiscal year 1985, the charge is $10 per square foot. Agencies have been instructed to budget $11 per square foot in fiscal year 1986.

By statute, the State Capitol and Judicial Center are not under the jurisdiction of the Department of Administration. Agencies in these buildings are not charged for rent, and operating costs are generally funded by direct State appropriation.

The following table compares square footage and operating and maintenance costs for fiscal years 1984 and 1986 for each of these four buildings. It also shows comparable costs for the Santa Fe Building. For the purposes of this comparison, the auditors used actual operating and maintenance costs rather than the level rent charges.

			Operating and Maintenance Costs			
			Actual FY 1984		Estimated FY 1986	
State-Owned Buildings	Gross. Sq. Ft.	Net Sq. Ft.	Total (in millions)	Per Net Sq. Ft.	Total (in millions)	Per Net Sq. Ft.
State Office Building (a)	505,700	377,000	$ 2.8	$ 7.38	$ 3.2	$ 8.42
Forbes Bldgs. (a)	107,499	78,308	$ .6	$ 8.09	$ .8	$ 9.75
State Capitol (b)	208,457	110,016	$ 1.6	$ 14.55	$ 1.5	$ 13.58
Judicial Center (b)	190,703	165,156	$ .7	$ 4.34	$ .8	$ 4.91
Santa Fe Building	352,696	272,530	NA	NA	$ 2.4	$ 8.87

(a) Agencies in these buildings are actually charged a level payment for operating and maintenance costs and for a maintenance reserve fund.

(b) Agencies in these buildings are charged no rent. Their operating and maintenance costs are generally paid by direct appropriation from the State General Fund.

As the table shows, the costs of operating and maintaining the Santa Fe Office Building will not be substantially different from the cost of operating other comparable State-owned office space. For example, Santa Fe's estimated operating costs of $8.87 per net square foot for fiscal year 1986 are only slightly higher than the estimated operating costs of $8.42 per square foot for the State Office Building.

Operating and Maintenance Costs For Leased Office Space Are Substantially Lower Than For State-Owned Buildings

In general, agencies that are not in the four main State-owned buildings described above lease space from private owners. In looking at leased space, the auditors limited themselves to an examination of leased office space in Topeka.

To determine the costs of office space leased from private owners, the auditors compiled information from the Division of Architectural Services as well as from individual agencies. Agencies that lease space in this manner pay actual lease charges rather than a level rent payment. Lease rates vary. In addition, some agencies are responsible for other costs of operation, such as utilities or custodial services or both.

For comparative purposes, the auditors divided agencies that lease office space into several different categories, depending on which party pays for utilities and custodial services. The two most common lease arrangements involve all utility and custodial costs being paid either by the landlord or by the agency. The following table compares the total cost per square foot for each type of lease arrangement based on fiscal year 1984 lease charges. Utility and custodial costs represent actual fiscal year 1984 expenditures.

1984 Charges for State-Leased Office Space

Category	Utilities Paid By:	Custodial Services Provided By:	No. Agencies	Average Lease Cost/ Square Foot
1	landlord	landlord	31	6.74
2	landlord	agency	1	7.38
3	agency	agency	13	6.23
4	agency	landlord	1	5.11
Combined average for State-leased space				6.43
State level rent				8.75

As the table shows, average lease costs for fiscal year 1984 ranged from \$5.11 to \$7.38 per square foot. For all categories of leased space combined, the average cost was \$6.43 per square foot. The average lease costs per square foot can also be compared with the level rents charged to agencies in certain State-owned space. In fiscal year 1984, the level rent charge was \$8.75 per square foot. This charge is considerably greater than the average cost of leased office space. Appendix 1 lists each State agency included in this analysis that leases office space and its square foot rental costs.

The Crane Building is not included in the above table because the space was not leased to the Kansas Bureau of Investigation until fiscal year 1985. The Crane Building lease stipulates that all building maintenance is to be provided by the landlord. For fiscal year 1985, the base lease charge is \$7.32 per square foot. The agency is responsible for utilities, custodial services, and security, which are estimated to be \$1.88 per square foot for the fiscal year. In total, then, the square foot cost of the Crane Building will be approximately \$9.20 per square foot in fiscal year 1985. This is somewhat below the level rent of \$10 per square foot charged to agencies in fiscal year 1985.

What Are the Advantages to the State Of Allowing A Private Developer to Buy the Santa Fe Building And Then Lease It Back to the State?

Several factors need to be considered in evaluating the cost effectiveness of having a private developer purchase the Santa Fe Building and lease it back to the State. Perhaps the most important consideration is whether this alternative would ultimately cost the State less than if it were to buy and operate the building itself. Another factor to consider is the advantage to the local taxing unit of keeping the Santa Fe Building on the property tax rolls. Still a third factor to consider is whether the State wants to own a building that will be nearly 100 years old by the time it is paid for.

The auditors focused most of their efforts on the first factor; that is, would it be less costly for the State to lease the building from a private developer than to own and operate the building itself.

There Are Tax Advantages For a Private Developer That Are Not Available to the State

If the State were to allow a private developer to buy the Santa Fe Building and lease it back to the State, the State would have the option of entering into one of two main types of leases. The type of lease has important tax implications for the developer, and important purchase option differences for the State.

Under a "true lease," the private developer receives income in the form of lease payments. As owner of the building, the developer is also eligible for numerous tax incentives. Specifically, tax credits may be available for up to 20 percent of the costs of rehabilitation since the building is over 40 years old. Additional tax credits might be available for the purchase of the computer-support equipment. These would amount to 10 percent of the price of such equipment. Also, the private developer can depreciate the building on an accelerated schedule covering 18 years. The developer could also deduct operating and interest expenses for tax purposes. The developer may give the State an option to purchase the building at the end of the lease, but the option must be exercised at fair market value.

There is some question whether certain tax credits and accelerated depreciation would be available to a developer under a true lease arrangement. The federal tax code may limit these tax incentives depending on the type of purchase/leasing arrangement reached. There may be ways to skirt this problem, but it would be necessary to obtain a tax ruling from the Internal Revenue Service to determine whether the leasing of the Santa Fe Building to the State would disqualify the developer from taking advantage of these tax incentives.

The second main type of lease the State might enter into is a "conditional-sales lease." This type of lease more closely resembles a mortgage or a sale of property. It also more closely resembles the request for proposal issued by the Department of Administration. The State is owner of the Santa Fe Building for federal income tax purposes and, therefore, the developer would not be eligible for the tax credits and savings incentives noted above. As such, the developer apparently would not have the potential problem with not qualifying for certain tax credits. The developer's income would come from rental payments. Rental payments would include a portion for the principal and a portion for the interest. Under current tax law, because the State is a tax-exempt entity the interest portion of the lease payments to the developer would be exempt from federal taxes. Under this type of lease, the State could receive title to the property after paying a nominal amount at the end of the lease term.

To assess the cost advantages to the State of buying or leasing the Santa Fe Building, the auditors performed numerous calculations designed to show the long-term costs to the State of three alternatives: buying the Santa Fe Building, allowing a private developer to buy the building and lease it to the State under a true lease, and leasing the building from a private developer under a conditional-sales lease. In performing their calculations and analyses, several general assumptions had to be made. These are as follows:

1. The base purchase price and renovation costs are equal for all cases.

Purchase price:	$ 11,245,000
Cost of renovations:	5,038,000
Total cost:	$ 16,283,000

2. The period of time considered was generally 20 years, the length of the Pooled Money Investment Board loan.

3. Maintenance and operating costs are equal for all cases. A five percent inflation factor was added each year. (See Appendix 2 for detailed amounts.)

4. The State will pay the cost of utilities and security. A five percent inflation factor was added each year. (See Appendix 2 for detailed amounts.)

5. The 272,530 net rentable square feet are the same for all cases.

Other assumptions are made under each scenario developed by the auditors. Those assumptions are listed in the appropriate sections.

It Might Be Less Costly for the State To Lease the Santa Fe Building Than To Buy It

Based on a review of the federal tax codes, interviews with officials from the Division of Architectural Services and with private sector financial experts, and analyses of building costs and tax implications for a private developer, the auditors determined that it may be less costly for the State to lease the Santa Fe Building.

The State's average annual cost over 20 years for buying and operating the Santa Fe Building is $20.54 per square foot. In calculating the cost to the State, the auditors assumed that the State would use the proceeds of the loan from the

Pooled Money Investment Board to buy the Santa Fe Building. The State has a favorable interest rate of 7.9 percent on that loan. The State would appropriate moneys from the State General Fund to pay for all costs of renovation. For this analysis, the auditors also made the following assumptions:

1. The cost of renovations will be recaptured over a 20-year period at a rate of 9.5 percent so that they can be repaid out of rental charges to State agencies.
2. The agencies housed in the Santa Fe Building would pay actual costs rather than a level rent payment. (The auditors did not try to compute the effect of the Santa Fe Building acquisition on the level rent charged to agencies in certain other State-owned buildings.)
3. The State will be responsible for all maintenance and operating costs.

Following these assumptions, the auditors computed a 20-year cost to the State of owning, renovating, and operating the Santa Fe Office Building. The results are shown below. Detailed cost information is listed in Appendix 3.

Costs to the State of Owning and Operating the Santa Fe Building

Acquisition Costs	Operating and Maintenance	Total 20-Year Costs	Average Lease Cost/ Square Foot
$ 32,008,990	$ 79,952,287	$111,961,277	$ 20.54

As the table shows, the State's total cost for the Santa Fe Building is nearly $112 million, or an average of $20.54 per square foot per year over a 20-year period. Actual square footage costs for financing the acquisition and renovations and operating the building range from $16.29 in the first year to $26.74 in the 20th year. At the end of 20 years, the building would be paid for and the State would own it.

As mentioned earlier, the State still does have the option of financing the purchase with revenue bonds. The State's cost would depend on the interest rate the bonds were sold for. The lower the rate, the cheaper the square footage costs. One advantage of this type of financing is that the State would be able to spread its costs over a period of years rather than drawing down balances in the first year to acquire the building. The auditors did not attempt to compute the cost associated with drawing down State inactive account balances. They also did not attempt to quantify the interest lost because of the differential between the 7.9 percent loan from the Pooled Money Investment Board and the interest rate that might be earned on inactive account moneys.

The State's average annual cost over 20 years for leasing the Santa Fe Building under a true lease would be at least $14.45 per square foot but could certainly be less than the cost of buying and operating the Building itself. Under this second scenario, the auditors assumed that the developer entering into a true lease with the State would be eligible for all tax credits and accelerated depreciation. Because so many variables come into play--for example, the type and income level of the developer, the method of financing the purchase, the amount and timing of tax savings passed on to the State, and the like--the auditors had to provide the parameters for their analyses through a set of fairly restrictive assumptions. These assumptions are as follows:

1. The building and renovations are fully financed with bonds over 20 years at 12 percent interest.
2. A four percent bond fee is added to total costs of the building.
3. The sum of the principal and interest is constant.
4. The computer-support equipment is financed over five years at 12.5 percent interest.
5. Maintenance and operating costs are the same as for the State except for the addition of property taxes. However, the developer is eligible to deduct these expenses from his income to provide additional tax savings.
6. The developer is in the 50 percent tax bracket and has the income necessary to absorb all tax credits and tax exemptions.
7. All tax credits are taken within the first year, and other tax benefits are taken as soon as they arise.
8. All tax advantages are passed on to the State.

The last two assumptions are important. By assuming that all tax credits are taken within the first year and that all tax advantages are passed on to the State, the auditors arrived at essentially a breakeven point; that is, a point where the developer's income from the building is zero.

Using these assumptions, the auditors computed the 20-year cost to the State of allowing a developer to buy the Santa Fe Office Building and lease it back to the State under a true lease arrangement. The results are listed below. Detailed cost information is shown in Appendix 4.

Minimum Cost to the State of Leasing the Santa Fe Building Under a True Lease Arrangement (Excludes Developer Profit)

Acquisition Costs	Operating & Maint. Costs	Tax Savings	Total Cost	Avg. Lease Cost/ Square Foot
$36,742,158	$ 84,879,114	$ (42,851,981)	$78,769,291	$ 14.45

As the table shows, the State would pay an average of at least $14.45 per square foot per year over a 20-year true lease arrangement. The actual annual cost would range from $4.87 per square foot the first year (because the auditors assumed that all tax credits would be taken the first year) to $21.96 per square foot in the 20th year. Again, these figures represent a developer's break-even costs. The State would not be able to lease the building at that low a figure. However, there is sufficient spread between the developer's break-even point and the State's cost if it were to buy and operate the building itself--$14.45 compared to $20.54--that it does appear likely the developer's lease charge including profit might fall somewhere between the two figures.

At the end of a 20-year lease, the State would not own the Santa Fe Building. Under a true lease, the State may buy the building at the end of the lease term for fair market value. If the State chose to purchase the building at that time, the purchase cost and any financing charges would need to be added to the total cost column on the preceding page.

The State's average annual cost over 20 years for leasing the Santa Fe Building under a conditional-sales lease would be at least $15.51 per square foot but would probably be less than the cost of buying and operating the building itself. Under this final scenario, the developer would not be eligible for any tax credits or accelerated depreciation because the lease would be construed more as a sale than a lease. However, because the State is a tax-exempt entity, the developer's income from the interest charged to the State is exempt from federal income taxes. For this analyses, the following assumptions were also made:

1. The building and renovations are fully financed through the issuance of tax-free bonds over a 20-year period at 10 percent interest.
2. A four percent bond fee is added to total costs of the building.
3. The sum of the principal and interest is constant.
4. The private developer would finance the computer-support equipment with tax-free bonds over five years at 10 percent interest.
5. The developer is in the 50 percent tax bracket and has the income necessary to take advantage of all tax savings.
6. Maintenance and operating costs are the same as for the State except for the addition of property taxes. However, the developer is eligible to deduct these expenses from his income to provide additional tax savings.
7. All tax savings are passed on to the State.

Using these assumptions, the auditors calculated the cost to the State of leasing the building from a private developer under a conditional-sales lease. The results are summarized below. Detailed cost information is presented in Appendix 5.

Minimum Cost to the State of Leasing the Santa Fe Building Under a Conditional-Sales Lease Arrangement (Excludes Developer Profit)

Acquisition Costs	Operating & Maint. Costs	Tax Savings	Total Cost	Avg. Lease Cost/ Square Foot
$32,012,970	$ 84,879,114	$ (32,337,830)	$84,554,254	$ 15.51

As the table shows, the State's average yearly lease cost over a 20-year lease period would be $15.51 per square foot. This figure is slightly higher than the State's lease cost under a true lease arrangement, but is still well below the State's projected cost of $20.54 per square foot for buying and operating the Santa Fe Building itself. Actual annual costs to the developer would range from $14.39 per square foot in the first year to $20.85 in the 20th year. The $15.51 average square foot figure excludes any developer's profit, but again there appears to be enough spread to make it feasible for a developer to meet actual costs, make a profit, and still charge the State less than $20.54 per square foot.

Under a conditional-sales lease, the State would not necessarily own the Building at the end of 20 years. But it would have the option to purchase the Building at the end of the lease term for a nominal sum, substantially below fair market value.

A Private Developer Would Pay More In Property Taxes On the Santa Fe Building Than The Railroad Company Is Now Paying

The Santa Fe Building is part of a railroad company and is therefore part of the "unit" which is assessed as one entity by the State. Under the "unit" valuation concept, a portion of the value of the operating company is allocated to Kansas. The Kansas allocation is then distributed among the various counties based on such characteristics as miles and densities of track located within a particular county. In the early 1970s, a consultant helped Kansas set up its appraisal and distribution procedures for utility appraisal. At that time, the Santa Fe Office Building and land were assessed at $582,185. Based on current mill levies, the property tax paid by Santa Fe on the building and land is $97,499 per year.

Because the property is part of a unit valuation, it is not necessarily accurate to conclude that these are the actual property taxes a private developer would pay on the Santa Fe Office Building. In informal discussions with the Shawnee County appraiser, the auditors determined that the appraised value of the building and land is just over $3.5 million. The assessed value would be about $898,000. At the current mill levy, a private developer would pay property taxes of approximately $149,000 a year. If the State buys the Santa Fe Building, it would not be on the tax rolls and Shawnee County would receive no property tax from the Building.

The State Must Decide Whether It Wants to Own the Santa Fe Building in 20 Years

A third factor that the State must consider is whether it actually wants to own the Santa Fe Building. The Building was first constructed in 1910 and an addition was completed in 1925. At the end of a 20-year loan payment it will be nearly 100 years old.

Conclusion

Based on the auditors' analyses, it appears there could be sufficient cost differences between the State and the private sector alternatives to warrant further investigation into the possibility of leasing the Santa Fe Office Building from a private developer.

At the same time, the results presented in this report should be viewed with caution. Each alternative scenario was based upon a number of assumptions. The auditors tried to make the most reasonable assumptions possible concerning interest rates, length of loans, type of repayment schedule, operating costs, and the like.

But changing any one assumption can greatly change the results. Thus, although the assumptions may be reasonable, the results presented in this audit are highly sensitive to those assumptions.

Proposals are due on January 14, 1985, in response to the request by the Department of Administration for private developer proposals to buy and renovate the Santa Fe Office Building. These proposals should help provide more concrete numbers for comparison of lease costs to the State.

Recommendation

The Legislature should use the results of this report and the information contained in any bid proposals the Department of Administration receives in its deliberations about how best to acquire use of the office space in the Santa Fe Office Building.

APPENDIX 1

State Agencies That Lease Office Space in Topeka

AGENCY	SQUARE FEET	CALCULATED LEASE EXPENDITURES	SQUARE FT. COST	UTILITIES	UTILITY PER SQUARE FOOT	CUSTODIAL	CUSTODIAL PER SQ. FT	TOTAL SQ FT COST
(Category 1)								
630 Kansas Bd. Barber Examiners	420	1,924	4.58	landlord		landlord		
4301 Huntoon Dental Board	631	2,840	4.50	landlord		landlord		
Merchants Bank Building Bd. of Regents	3,543	27,317	7.71	landlord		landlord		
700 Jackson: 2nd floor ABC Division, Revenue	5,432	38,567	7.10	landlord		landlord		
217 E 4th: 1st, 4th floors Consumer Credit Animal Health Real Estate Commission Workers Comp Division	14,368	102,731	7.15	landlord		landlord		
SRS foodstamps, vault 610 W 10th	3,000	21,000	7.00	landlord		landlord		
610 W. 10th Dept. on Aging/Older Amer	4,161	31,624	7.60	landlord		landlord		
109 W. 9th: B-1st-Mezz. Dept. of Ag. sublet	30,700	184,200	6.00	landlord		landlord		
109 W. 9th: 2nd floor Water Office sublet	4,300	25,800	6.00	landlord		landlord		
610 W. 10th: 2nd floor SRS	3,839	29,176	7.60	landlord		landlord		
700 Jackson: 4th, 5th flr Corrections, Adult Auth.	18,360	130,356	7.10	landlord		landlord		
214 W. 6th: 1st, 2nd flr Technical Professions Civil Rights Commission Behavioral Science Bd. of Embalming	9,050	54,300	6.00	landlord		landlord		
700 Harrison: 3rd floor St. Treasurer, PMIB	12,104	89,570	7.40	landlord		landlord		
Crime Victims Reparation Columbian Bldg Suite 400	718	5,299	7.38	landlord		landlord		

AGENCY	SQUARE FEET	CALCULATED LEASE EXPENDITURES	SQUARE FT. COST	UTILITIES	UTILITY PER SQUARE FOOT	CUSTODIAL	CUSTODIAL PER SQ. FT	TOTAL SQ FT COST
715 W. 10th Capitol Complex Rooms	3,003	21,021	7.00	landlord		landlord		
3300 W. 29th Fish and Game Comm.	1,850	11,100	6.00	landlord		landlord		
109 W. 9th: 5th floor Public Disclosure	1,445	9,031	6.25	landlord		landlord		
Columbian Bldg 401,403 Kansas Arts Commission	2,366	16,846	7.12	landlord		landlord		
Topeka Parole Office 4125 Gage Center Drive	1,797	8,985	5.00	landlord		landlord		
109 W. 9th: Suite 301 Leg. Post Audit	7,871	51,162	6.50	landlord		landlord		
Securities Commissioner 109 W. 9th	2,435	17,045	7.00	landlord		landlord		
Public Defender's Office 424 S. Kansas	1,928	13,535	7.02	landlord		landlord		
Public Defender's Office 424 S. Kansas	157	798	5.08	landlord		landlord		
Public Defender's Office 424 S. Kansas	400	2,000	5.00	landlord		landlord		
Kansas Bureau of Invest. 3240 Van Buren	23,064	161,448	7.00	landlord		landlord		7.00
TOTAL SQUARE FEET	156,942							
TOTAL LEASE COST	1,057,673							
AVERAGE LEASE COST	6.74							
(Category 2)								
235 S. Topeka Grain Insp. sublet	5,659	41,773	7.00	landlord		2,160.00	.38	7.38
TOTAL SQUARE FEET	5,659							
TOTAL LEASE COST	41,773							
AVERAGE LEASE COST	7.38							
(Category 3)								
630 Kansas Bd. Cosmetology	3,036	11,941	2.43	3,843.23	1.27	720.00	.24	3.93
122 W.7th Highway Patrol	14,000	109,312	6.50	15,312.46	1.09	3,000.00	.21	7.81
625 Polk Architectural Services	11,025	80,482	5.50	15,986.25	1.45	3,858.75	.35	7.30
420 W. 9th Ins. Dept. (Womens Club)	30,395	228,873	6.25	29,496.00	.97	9,408.00	.31	7.53
1710 S. Topeka SRS Services	14,000	95,336	4.80	23,000.43	1.64	5,136.00	.37	6.81

AGENCY	SQUARE FEET	CALCULATED LEASE EXPENDITURES	SQUARE FT. COST	UTILITIES	UTILITY PER SQUARE FOOT	CUSTODIAL	CUSTODIAL PER SQ. FT	TOTAL SQ FT COST
700 Jackson KPERS + Storage space	9,180	77,157	6.50	11,860.14	1.29	5,626.94	.61	8.40
700 Jackson, Suite 300 Banking Comm. Sublet	4,025	33,460	6.50	5,197.00	1.29	2,100.00	.52	8.31
2036 E. 30th SRS Disability Determin.	10,704	91,360	6.25	20,274.00	1.89	4,185.60	.39	8.54
512 W. 6th DHR	5,386 5,386	43,694 29,623	3.85 5.50	15,225.00	2.83	7,733.00	1.44	8.11 5.50
Forbes Indusrial B. 321 KDHE	57,715	195,966	1.02	122,456.78	2.12	14,640.00	.25	3.40
1430 S. Topeka Job Service	33,700	333,333	8.35	29,099.00	.86	22,839.00	.68	9.89
433 Topeka DHR, part of central off.	2,777	18,850	4.38	4,287.00	1.54	2,400.00	.86	6.79
120 E. 10th Dept. of Education	53,455	237,098	2.99	61,668.00	1.15	15,600.00	.29	4.44

TOTAL SQUARE FEET 254,784
TOTAL LEASE COST 1,586,486
PER SQUARE FOOT COST 6.23

(Category 4)

AGENCY	SQUARE FEET	CALCULATED LEASE EXPENDITURES	SQUARE FT. COST	UTILITIES	UTILITY PER SQUARE FOOT	CUSTODIAL	CUSTODIAL PER SQ. FT	TOTAL SQ FT COST
447 E. 29th Driver Exam Station	2,980	15,225	3.50	4,795.00	1.61		0.0	5.11

TOTAL SQUARE FEET 2,980
TOTAL LEASE COST 15,225
PER SQUARE FOOT COST 5.11

Agencies which have moved to new locations in FY85 new locations in FY85

AGENCY	SQUARE FEET	CALCULATED LEASE EXPENDITURES	SQUARE FT. COST	UTILITIES	UTILITY PER SQUARE FOOT	CUSTODIAL	CUSTODIAL PER SQ. FT	TOTAL SQ FT COST
121 E. 6th Public Defender, Conflicts	2,217	19,083	7.85	landlord		1,680.00	.76	8.61
17th & Topeka (Crane) KBI	48,820	449,201	7.32	69,000.00	1.41	22,839.00	.47	9.20
609 Capitol Tower Bd. of Regents	4,320	51,408	11.90	landlord		landlord		
EMS Offices, storage 111 W. 6th	2,006	16,141	6.85	landlord		2,400.00	1.20	8.05

TOTAL SQUARE FEET 57,363
TOTAL LEASE COST 535,834
PER SQUARE FOOT COST 9.34

APPENDIX 2

Maintenance and Operating Costs for the Santa Fe Office Building, Estimates Provided By the Department of Administration

Annual utilities	Cost per net square foot	Annual Maintenance	Cost per net square foot	Annual Custodial	Cost per net square foot	Annual security	Cost per net square foot	Total annual operating expenditures	per net square foot
1,003,441	3.68	889,754	3.26	409,802	1.50	114,967	.42	2,417,964	8.87
1,053,613	3.87	934,242	3.43	430,292	1.58	120,715	.44	2,538,862	9.32
1,106,294	4.06	980,954	3.60	451,807	1.66	126,751	.47	2,665,805	9.78
1,161,608	4.26	1,030,001	3.78	474,397	1.74	133,089	.49	2,799,096	10.27
1,219,689	4.48	1,081,502	3.97	498,117	1.83	139,743	.51	2,939,050	10.78
1,280,673	4.70	1,135,577	4.17	523,023	1.92	146,730	.54	3,086,003	11.32
1,344,707	4.93	1,192,355	4.38	549,174	2.02	154,067	.57	3,240,303	11.89
1,411,942	5.18	1,251,973	4.59	576,633	2.12	161,770	.59	3,402,318	12.48
1,482,539	5.44	1,314,572	4.82	605,464	2.22	169,859	.62	3,572,434	13.11
1,556,666	5.71	1,380,300	5.06	635,737	2.33	178,352	.65	3,751,056	13.76
1,634,500	6.00	1,449,316	5.32	667,524	2.45	187,269	.69	3,938,609	14.45
1,716,225	6.30	1,521,781	5.58	700,900	2.57	196,633	.72	4,135,539	15.17
1,802,036	6.61	1,597,870	5.86	735,946	2.70	206,464	.76	4,342,316	15.93
1,892,138	6.94	1,677,764	6.16	772,743	2.84	216,787	.80	4,559,432	16.73
1,986,745	7.29	1,761,652	6.46	811,380	2.98	227,627	.84	4,787,403	17.57
2,086,082	7.65	1,849,735	6.79	851,949	3.13	239,008	.88	5,026,773	18.44
2,190,386	8.04	1,942,221	7.13	894,546	3.28	250,959	.92	5,278,112	19.37
2,299,905	8.44	2,039,332	7.48	939,274	3.45	263,506	.97	5,542,018	20.34
2,414,900	8.86	2,141,299	7.86	986,237	3.62	276,682	1.02	5,819,119	21.35
2,535,645	9.30	2,248,364	8.25	1,035,549	3.80	290,516	1.07	6,110,075	22.42
33,179,734		29,420,565		13,550,494		3,801,494		79,952,287	

THE FOLLOWING THREE APPENDIXES present the auditors' calculations of State costs for buying and operating the Santa Fe Office Building or leasing it from a private developer under two separate lease arrangements. Because the results are highly sensitive to the assumptions made, those assumptions are clearly laid out in each appendix.

APPENDIX 3

Costs to the State of Owning and Operating the Santa Fe Office Building

rincipal and interest	per net square foot	Imputed costs renovation	Per net sq. ft.	Annual payment for utilities	Per net sq. ft.	Annual payment for maintenance	Per net sq. ft.	Annual payment for custodial	Per net sq. ft.
1,450,605	5.32	571,813	2.10	1,003,441	3.68	889,754	3.26	409,802	1.50
1,406,187	5.16	571,813	2.10	1,053,613	3.87	934,242	3.43	430,292	1.58
1,361,770	5.00	571,813	2.10	1,106,294	4.06	980,954	3.60	451,807	1.66
1,317,352	4.83	571,813	2.10	1,161,608	4.26	1,030,001	3.78	474,397	1.74
1,272,934	4.67	571,813	2.10	1,219,689	4.48	1,081,502	3.97	498,117	1.83
1,228,516	4.51	571,813	2.10	1,280,673	4.70	1,135,577	4.17	523,023	1.92
1,184,099	4.34	571,813	2.10	1,344,707	4.93	1,192,355	4.38	549,174	2.02
1,139,681	4.18	571,813	2.10	1,411,942	5.18	1,251,973	4.59	576,633	2.12
1,095,263	4.02	571,813	2.10	1,482,539	5.44	1,314,572	4.82	605,464	2.22
1,050,845	3.86	571,813	2.10	1,556,666	5.71	1,380,300	5.06	635,737	2.33
1,006,428	3.69	571,813	2.10	1,634,500	6.00	1,449,316	5.32	667,524	2.45
962,010	3.53	571,813	2.10	1,716,225	6.30	1,521,781	5.58	700,900	2.57
917,592	3.37	571,813	2.10	1,802,036	6.61	1,597,870	5.86	735,946	2.70
873,174	3.20	571,813	2.10	1,892,138	6.94	1,677,764	6.16	772,743	2.84
828,757	3.04	571,813	2.10	1,986,745	7.29	1,761,652	6.46	811,380	2.98
784,339	2.88	571,813	2.10	2,086,082	7.65	1,849,735	6.79	851,949	3.13
739,921	2.72	571,813	2.10	2,190,386	8.04	1,942,221	7.13	894,546	3.28
695,503	2.55	571,813	2.10	2,299,905	8.44	2,039,332	7.48	939,274	3.45
651,086	2.39	571,813	2.10	2,414,900	8.86	2,141,299	7.86	986,237	3.62
606,668	2.23	571,813	2.10	2,535,645	9.30	2,248,364	8.25	1,035,549	3.80
20,572,730		11,436,260		33,179,734		29,420,565		13,550,494	

ASSUMPTIONS:

1. The State will use the proceeds of the loan from the Pooled Money Investment Board to buy the Santa Fe Building.
2. The cost of renovations will be recaptured over a 20-year period at a rate of 9.5 percent so that they can be repaid out of rental charges to State agencies.
3. The agencies housed in the Santa Fe Building would pay actual costs rather than a level rent payment. (The auditors did not try to compute the effect of the Santa Fe Building acquisition on the level rent charged to agencies in certain other State-owned buildings.)
4. The State will be responsible for all maintenance and operating costs.

Annual payment for security	Per net sq. ft.	Total annual operating expenditures	Per net sq. ft.	Total annual costs	Per net sq. ft.	9.5% discount factors	Present value of annual expenditures
114,967	.42	2,417,964	8.87	4,440,382	16.29	.9132	4,054,957
120,715	.44	2,538,862	9.32	4,516,862	16.57	.8340	3,767,063
126,751	.47	2,665,805	9.78	4,599,388	16.88	.7617	3,503,354
133,089	.49	2,799,096	10.27	4,688,261	17.20	.6956	3,261,154
139,743	.51	2,939,050	10.78	4,783,797	17.55	.6352	3,038,668
146,730	.54	3,086,003	11.32	4,886,332	17.93	.5801	2,834,561
154,067	.57	3,240,303	11.89	4,996,215	18.33	.5298	2,646,995
161,770	.59	3,402,318	12.48	5,113,812	18.76	.4838	2,474,062
169,859	.62	3,572,434	13.11	5,239,510	19.23	.4418	2,314,816
178,352	.65	3,751,056	13.76	5,373,714	19.72	.4035	2,168,294
187,269	.69	3,938,609	14.45	5,516,850	20.24	.3685	2,032,959
196,633	.72	4,135,539	15.17	5,669,362	20.80	.3365	1,907,740
206,464	.76	4,342,316	15.93	5,831,721	21.40	.3073	1,792,088
216,787	.80	4,559,432	16.73	6,004,419	22.03	.2807	1,685,440
227,627	.84	4,787,403	17.57	6,187,973	22.71	.2563	1,585,978
239,008	.88	5,026,773	18.44	6,382,925	23.42	.2341	1,494,243
250,959	.92	5,278,112	19.37	6,589,846	24.18	.2138	1,408,909
263,506	.97	5,542,018	20.34	6,809,334	24.99	.1952	1,329,182
276,682	1.02	5,819,119	21.35	7,042,018	25.84	.1783	1,255,592
290,516	1.07	6,110,075	22.42	7,288,556	26.74	.1628	1,186,577
3,801,494		79,952,287		111,961,277			45,742,631

APPENDIX 4

Minimum Cost to the State of Leasing the Santa Fe Building Under a True Lease Arrangement (Excludes Developer Profit)

Building principal	Interest on building	Per net sq. ft.	Interest tax savings .50	Tax credits	Adjusted basis for depreciation	Deprec. rate	Total depreciation	Tax savings .50	Annual cash outflow	Per net sq. ft.	Annual pmt. maintenance
154,255	1,245,000	5.13	(622,500)	(1,076,000)	8,522,000	.12	(1,022,640)	(511,320)	(810,565)	(2.97)	1,038,754
163,766	1,235,489	5.13	(617,745)		7,499,360	.10	(852,200)	(426,100)	355,410	1.30	1,090,692
183,417	1,215,838	5.13	(607,919)		6,647,160	.09	(766,980)	(383,490)	407,846	1.50	1,145,226
205,428	1,193,827	5.13	(596,914)		5,880,180	.08	(681,760)	(340,880)	461,461	1.69	1,202,488
230,079	1,169,176	5.13	(584,588)		5,198,420	.07	(596,540)	(298,270)	516,397	1.89	1,262,612
257,688	1,141,567	5.13	(570,783)		4,601,880	.06	(511,320)	(255,660)	572,812	2.10	1,325,743
288,611	1,110,644	5.13	(555,322)		4,090,560	.06	(511,320)	(255,660)	588,273	2.16	1,392,030
323,244	1,076,011	5.13	(538,005)		3,579,240	.05	(426,100)	(213,050)	648,200	2.38	1,461,631
362,034	1,037,221	5.13	(518,611)		3,153,140	.05	(426,100)	(213,050)	667,594	2.45	1,534,713
405,478	993,777	5.13	(496,889)		2,727,040	.04	(340,880)	(170,440)	731,926	2.69	1,611,448
454,135	945,120	5.13	(472,560)		2,386,160	.04	(340,880)	(170,440)	756,255	2.77	1,692,021
508,631	890,624	5.13	(445,312)		2,045,280	.04	(340,880)	(170,440)	783,503	2.87	1,776,622
569,667	829,588	5.13	(414,794)		1,704,400	.04	(340,880)	(170,440)	814,021	2.99	1,865,453
638,027	761,228	5.13	(380,614)		1,363,520	.04	(340,880)	(170,440)	848,201	3.11	1,958,726
714,590	684,665	5.13	(342,332)		1,022,640	.03	(255,560)	(127,830)	929,093	3.41	2,056,662
800,341	598,914	5.13	(299,457)		766,980	.03	(255,560)	(127,830)	971,968	3.57	2,159,495
896,382	502,873	5.13	(251,437)		511,320	.03	(255,660)	(127,830)	1,019,988	3.74	2,267,470
1,003,948	395,307	5.13	(197,654)		255,600	.03	(255,660)	(127,830)	1,073,771	3.94	2,380,843
1,124,421	274,834	5.13	(137,417)				0	0	1,261,838	4.63	2,499,885
1,259,352	139,903	5.13	(69,952)				0	0	1,329,303	4.88	2,624,880
10,543,492	17,441,608		(8,720,804)	(1,076,000)	61,954,880		(8,522,000)	(4,261,000)	13,927,296		34,347,392

Computer equip. principal	Computer equip. interest	Per net sq. ft.	Interest tax savings .50	Tax credits	Adjusted basis for depreciation	Deprec. rate	Total depreciation	Tax savings .50	Annual cash outflow	Per net sq. ft.
972,036	779,375	6.43	(389,688)	(623,500)	5,923,250	.15	(888,488)	(444,244)	293,980	1.08
1,093,541	657,870	6.43	(328,935)		5,034,762	.22	(1,303,115)	(651,558)	770,919	2.83
1,230,234	521,178	6.43	(260,589)		3,731,647	.21	(1,243,882)	(621,941)	868,881	3.19
1,384,013	367,399	6.43	(183,699)		2,487,764	.21	(1,243,882)	(621,941)	945,771	3.47
1,557,015	194,397	6.43	(97,198)		1,243,881	.21	(1,243,882)	(621,941)	1,032,272	3.79
6,236,839										

ASSUMPTIONS:

1. The developer entering into a true lease with the State would be eligible for all tax credits and accelerated depreciation.
2. The building and renovations are fully financed with bonds over 20 years at 12 percent interest.
3. A four percent bond fee is added to total costs of the building.
4. The sum of the principal and interest is constant.
5. The computer-support equipment is financed over five years at 12.5 percent interest.
6. Maintenance and operating costs are the same as for the State except for the addition of property taxes. However, the developer is eligible to deduct these expenses from his income to provide additional tax savings.
7. The developer is in the 50 percent tax bracket and has the income necessary to absorb all tax credits and tax exemptions.
8. All tax credits are taken within the first year, and other tax benefits are taken as soon as they arise.
9. All tax advantages are passed on to the State.

Expense ded. tax savings .50	Annual pmt. custodial	Expense ded. tax savings .50	Annual pmt. security	Annual pmt. utilities	Total annual expenditures building	Annual cash outflow computer supp.	Total annual expenditures	Per net sq. ft.	9.5% discount factors	Present value of expenditures
(519, 377)	409, 802	(204, 901)	114, 967	1, 003, 441	1, 032, 121	293, 980	1, 326, 101	4. 87	.9132	1, 210, 996
(545, 346)	430, 292	(215, 146)	120, 715	1, 053, 613	2, 290, 231	770, 919	3, 061, 149	11.23	.8340	2, 552, 999
(572, 613)	451, 807	(225, 903)	126, 751	1, 106, 294	2, 439, 408	868, 881	3, 308, 289	12. 14	.7617	2, 519, 924
(601, 244)	474, 397	(237, 199)	133, 089	1, 161, 608	2, 594, 601	945, 771	3, 540, 372	12.99	.6956	2, 462, 682
(631, 306)	498, 117	(249, 058)	139, 743	1, 219, 689	2, 756, 193	1, 032, 272	3, 788, 465	13.90	.6352	2, 406, 433
(662, 871)	523, 023	(261, 511)	146, 730	1, 280, 673	2, 924, 598		2, 924, 598	10. 73	.5801	1, 696, 559
(696, 015)	549, 174	(274, 587)	154, 067	1, 344, 707	3, 057, 648		3, 057, 648	11.22	.5298	1, 619, 942
(730, 816)	576, 633	(288, 316)	161, 770	1, 411, 942	3, 241, 044		3, 241, 044	11.89	.4838	1, 568, 017
(767, 356)	605, 464	(302, 732)	169, 859	1, 482, 539	3, 390, 081		3, 390, 081	12.44	.4418	1, 497, 738
(805, 724)	635, 737	(317, 869)	178, 352	1, 556, 666	3, 590, 537		3, 590, 537	13. 17	.4035	1, 448, 782
(846, 010)	667, 524	(333, 762)	187, 269	1, 634, 500	3, 757, 796		3, 757, 796	13. 79	.3685	1, 384, 748
(888, 311)	700, 900	(350, 450)	196, 633	1, 716, 225	3, 935, 121		3, 935, 121	14. 44	.3365	1, 324, 168
(932, 726)	735, 946	(367, 973)	206, 464	1, 802, 036	4, 123, 220		4, 123, 220	15. 13	.3073	1, 267, 066
(979, 363)	772, 743	(386, 371)	216, 787	1, 892, 138	4, 322, 860		4, 322, 860	15.86	.2807	1, 213, 427
(1, 028, 331)	811, 380	(405, 690)	227, 627	1, 986, 745	4, 577, 485		4, 577, 485	16.80	.2563	1, 173, 209
(1, 079, 747)	851, 949	(425, 974)	239, 008	2, 086, 082	4, 802, 780		4, 802, 780	17.62	.2341	1, 124, 331
(1, 133, 735)	894, 546	(447, 273)	250, 959	2, 190, 386	5, 042, 341		5, 042, 341	18.50	.2138	1, 078, 052
(1, 190, 422)	939, 274	(469, 637)	263, 506	2, 299, 905	5, 297, 241		5, 297, 241	19.44	.1952	1, 034, 022
(1, 249, 943)	986, 237	(493, 119)	276, 682	2, 414, 900	5, 696, 482		5, 696, 482	20.90	.1783	1, 015, 683
(1, 312, 440)	1, 035, 549	(517, 775)	290, 516	2, 535, 645	5, 985, 679		5, 985, 679	21.96	.1628	974, 469
(17, 173, 696)	13, 550, 494	(6, 775, 247)	3, 801, 494	33, 179, 734	74, 857, 467		78, 769, 290			30, 573, 245

APPENDIX 5

Minimum Cost to the State of Leasing the Santa Fe Building Under a Conditional-Sales Lease Arrangement (Excludes Developer Profit)

Building principal	Interest on building	Per net sq. ft.	Interest deduction tax savings	Annual cash outflow	Per net sq. ft.	Annual pmt. maintenance	Tax savings maintenance .50	Annual pmt. custodial
223,514	1,045,000	4.65	(522,500)	746,014	2.74	1,038,754	(519,377)	409,802
182,875	1,022,649	4.42	(511,324)	694,199	2.55	1,090,692	(545,346)	430,292
205,226	1,004,361	4.44	(502,181)	707,407	2.60	1,145,226	(572,613)	451,807
223,514	983,838	4.43	(491,919)	715,433	2.63	1,202,488	(601,244)	474,397
244,037	961,487	4.42	(480,744)	724,780	2.66	1,262,612	(631,306)	498,117
266,388	937,083	4.42	(468,542)	734,930	2.70	1,325,743	(662,871)	523,023
290,792	910,445	4.41	(455,222)	746,014	2.74	1,392,030	(696,015)	549,174
317,430	881,365	4.40	(440,683)	758,113	2.78	1,461,631	(730,816)	576,633
346,510	849,622	4.39	(424,811)	771,321	2.83	1,534,713	(767,356)	605,464
378,253	814,971	4.38	(407,486)	785,738	2.88	1,611,448	(805,724)	635,737
412,904	777,146	4.37	(388,573)	801,477	2.94	1,692,021	(846,010)	667,524
450,729	735,856	4.35	(367,928)	818,657	3.00	1,776,622	(888,311)	700,900
492,019	690,783	4.34	(345,392)	837,411	3.07	1,865,453	(932,726)	735,946
537,092	641,581	4.32	(320,791)	857,883	3.15	1,958,726	(979,363)	772,743
586,294	587,872	4.31	(293,936)	880,230	3.23	2,056,662	(1,028,331)	811,380
640,003	529,243	4.29	(264,621)	904,624	3.32	2,159,495	(1,079,747)	851,949
698,632	465,242	4.27	(232,621)	931,254	3.42	2,267,470	(1,133,735)	894,546
762,633	395,379	4.25	(197,689)	960,322	3.52	2,380,843	(1,190,422)	939,274
832,496	319,116	4.23	(159,558)	992,054	3.64	2,499,885	(1,249,943)	986,237
908,759	235,866	4.20	(117,933)	1,026,692	3.77	2,624,880	(1,312,440)	1,035,549
						0		
9,000,099	14,788,906		(7,394,453)	16,394,552		34,347,392	(17,173,696)	13,550,494

omputer equip. principal	Computer equip. interest	Per net sq. ft.	Interest tax savings	Annual cash outflow	Per net sq. ft.
1,021,293	623,500	6.04	(311,750)	1,333,043	4.89
1,123,422	521,371	6.04	(260,685)	1,384,108	5.08
1,235,765	409,028	6.04	(204,514)	1,440,279	5.28
1,359,341	285,452	6.04	(142,726)	1,502,067	5.51
1,495,275	149,518	6.04	(74,759)	1,570,034	5.76
6,235,096	1,988,869		(994,434)	7,229,531	

ASSUMPTIONS:

1. The developer would not be eligible for any tax credits or accelerated depreciation because the lease would be construed more as a sale than a lease.
2. The developer's income comes from rental payments, the interest portion of which is exempt from federal taxes.
3. The building and renovations are fully financed through the issuance of tax-free bonds over a 20-year period at 10 percent interest.
4. A four percent bond fee is added to total costs of the building.
5. The sum of the principal and interest is constant.

Tax savings custodial .50	Annual pmt. security	Annual pmt. utilities	Total annual expenditures	Annual cash outflow computer supp.	Total annual expenditures	Per net sq. ft.	9.5% discount factors	Present value of expenditures
(204,901)	114,967	1,003,441	2,588,700	1,333,043	3,921,743	14.39	.9132	3,581,336
(215,146)	120,715	1,053,613	2,629,020	1,384,108	4,013,127	14.73	.8340	3,346,948
(225,903)	126,751	1,106,294	2,738,968	1,440,279	4,179,247	15.33	.7617	3,183,332
(237,199)	133,089	1,161,608	2,848,573	1,502,067	4,350,639	15.96	.6956	3,026,305
(249,058)	139,743	1,219,689	2,964,576	1,570,034	4,534,610	16.64	.6352	2,880,385
(261,511)	146,730	1,280,673	3,086,716		3,086,716	11.33	.5801	1,790,604
(274,587)	154,067	1,344,707	3,215,389		3,215,389	11.80	.5298	1,703,513
(288,316)	161,770	1,411,942	3,350,957		3,350,957	12.30	.4838	1,621,193
(302,732)	169,859	1,482,539	3,493,807		3,493,807	12.82	.4418	1,543,564
(317,869)	178,352	1,556,666	3,644,349		3,644,349	13.37	.4035	1,470,495
(333,762)	187,269	1,634,500	3,803,018		3,803,018	13.95	.3685	1,401,412
(350,450)	196,633	1,716,225	3,970,275		3,970,275	14.57	.3365	1,335,998
(367,973)	206,464	1,802,036	4,146,610		4,146,610	15.22	.3073	1,274,253
(386,371)	216,787	1,892,138	4,332,542		4,332,542	15.90	.2807	1,216,144
(405,690)	227,627	1,986,745	4,528,622		4,528,622	16.62	.2563	1,160,686
(425,974)	239,008	2,086,082	4,735,436		4,735,436	17.38	.2341	1,108,566
(447,273)	250,959	2,190,386	4,953,606		4,953,606	18.18	.2138	1,059,081
(469,637)	263,506	2,299,905	5,183,792		5,183,792	19.02	.1952	1,011,876
(493,119)	276,682	2,414,900	5,426,697		5,426,697	19.91	.1783	967,580
(517,775)	290,516	2,535,645	5,683,068		5,683,068	20.85	.1628	925,203
(6,775,247)	3,801,494	33,179,734	77,324,722		84,554,253			35,608,474

6. The private developer would finance the computer-support equipment with tax-free bonds over five years at 10 percent interest.
7. The developer is in the 50 percent tax bracket and has the income necessary to take advantage of all tax savings.
8. Maintenance and operating costs are the same as for the State except for the addition of property taxes. However, the developer is eligible to deduct these expenses from his income to provide additional tax savings.
9. All tax savings are passed on to the State.