EXECUTIVE SUMMARY

Leasing vs. Owning

Conventional wisdom doesn't hold true when it comes to state facilities — especially in our tough economic times.

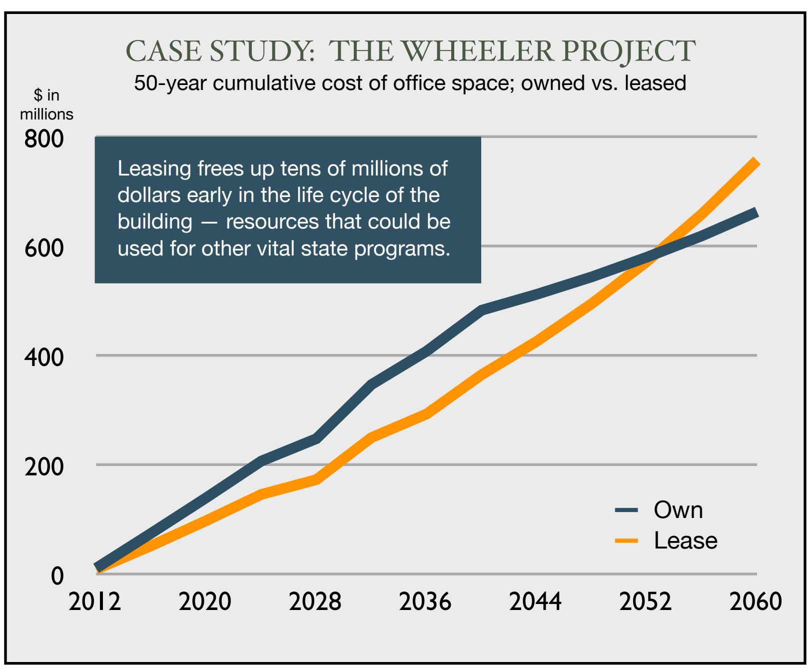
INTRODUCTION

With the state's capital and operating budgets in unprecedented distress, lawmakers are of necessity looking for ways to create efficiencies that help reduce the negative impact of budget cuts on vital state programs. The Government Building Owners & Lessors Association (GBOLA) has commissioned a study to help lawmakers thoughtfully consider the issue of leasing state office facilities versus owning them. Based upon a historical review and informed forecast into the future, GBOLA offers the following overview of our findings and recommendations to achieve significant savings for the state of Washington:

CONCLUSIONS

1) Over the life of a building, leasing typically creates a substantial savings to taxpayers. For example, our study of the Wheeler Project (new DIS headquarters in Olympia) versus a comparable leased facility found that it will take 40 years for the project to realize the savings that would begin on day-one had the facility instead been leased (rather than leased-to-own).

2) Leasing takes the "surprise" out of future budgeting. State budget writers have a tough job anticipating what the economy will do next. When the state takes



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ownership of a facility, it also takes on the uncertainty of maintenance costs, rapidly-changing technology infrastructure demands and other improvements required by the tenant agency. In leased facilities, the costs of these surprises are borne primarily by the lessor, not the state.

3) Because leased buildings are maintained at the private sector's expense they offer more frequent updates to meet rapidly-changing technology needs. When the state builds to own, seldom does it factor in the costs associated with upgrades down the road. Or when it does, the cached funds become too attractive to future budget writers and they are scooped up for other uses when money is tight. An unwelcome budget surprise when it's time to pay the piper.

4) Leasing relieves state government of future costs associated with owning and maintaining aging buildings. Physical structures do become obsolete over their life cycle. In many cases, the costs of "reforming" a dated building to match current building codes and technology requirements can rival the value of the building itself. To realize efficiencies in state government, modern infrastructure must be available. And in aging buildings, there is a significant cost to getting there.

Leasing gives budget writers more flexibility to shave costs when lack of revenues demand it.

5) Leasing provides state government more flexibility with regard to use, costs and term than owning. Today's declining state revenues are requiring agency downsizing. The realities of uncertain revenue streams will exist for years to come. Leasing gives budget writers more flexibility to shave costs when lack of revenues demand it. And it allows them to more readily ramp up when a meaningful recovery takes place.

6) Leasing ensures local governments retain tax base. When state government owns property, the property is removed from tax rolls and the burden is spread among the remaining taxpayers, increasing their costs and reducing dollars available for local private investment. In some cases, due to constitutional property tax limits, local governments may not be able to recoup the loss at all. That's bad news for local governments already under budgetary distress.

GOVERNMENT BUILDING OWNERS & LESSORS ASSOCIATION (GBOLA)

MISSION STATEMENT

- The private sector can best provide cost-effective and efficient office and warehouse facilities for government agencies;
- Private ownership of government facilities creates an atmosphere conducive to worker satisfaction and productivity;
- Host communities receive greater benefits through private ownership of government facilities;
- Private and public sectors should work cooperatively in long-range facilities planning.

We, therefore, come together to promote the efficiencies of the private sector in providing leasehold facilities that best serve the interests of government agencies, their employees and their communities.

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RECOMMENDATIONS

In addition to the fundamental findings above, GBOLA recommends the following legislative and process changes when evaluating lease vs. own options:

Modernize the "Life Cycle Cost Analysis": Permanently codify the policies outlined in the 2011 capital budget (HB 1497, lines 23-28).

Require Second Life Cycle Cost Analysis After Pre-Design: An updated Life Cycle Cost Analysis should be performed and submitted with any legislative request for land acquisition and construction funding.

Consistent Application of Lease vs. Own Modeling: In our case study, we found inconsistent methods for projecting costs were utilized rather than generally-accepted models developed by the respected Joint Legislative Review & Audit Committee (JLARC). The JLARC model should be applied consistently when evaluating proposals.

Use Assumptions Consistently: When evaluating and re-evaluating proposals, data assumptions such as inflation rates should be consistently applied unless a deliberate legislative or executive policy decision is made to change assumptions.

Develop Criteria and Assumptions Prior to Evaluation: Assumptions should not be modified once the evaluation is in play. Additionally, independent parties not associated with the decision should be used to ensure impartiality.

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Call It What It Really Is: A lease-to-own agreement is, for the most part, a financing strategy to own a building. In the decision-making process, a lease-to-own agreement needs to include variables that are a reality (i.e. ongoing maintenance, capital reserves, upgrades, program flexibility, salvage and disposal values). Failure to do so misrepresents the actual end costs to the state.

GBOLA believes these recommendations will help ensure the interests of state and local governments and the taxpayers of Washington state will be best served today and in the future.