

MINUTES
STATE BUILDING COMMISSION
Executive Subcommittee
September 6, 2013

The State Building Commission Executive Subcommittee met this day at 11:00 a.m. in House Hearing Room 30, Legislative Plaza, Nashville, Tennessee. Secretary of State Tre Hargett called the meeting to order at 11:00 a.m. and requested action on the following matters as presented by Interim State Architect Alan Robertson.

STATE BUILDING COMMISSION SUB-COMMITTEE MEMBERS PRESENT

Vice-Chairman Tre Hargett, Secretary of State
Larry Martin, Commissioner, Department of Finance and Administration
David Lillard, State Treasurer
Justin Wilson, Comptroller of the Treasury

OTHERS PRESENT

Alan Robertson, Interim State Architect
Peter Heimbach, Department of General Services
Gwen Sanders, Department of General Services
Melinda Parton, Comptroller's Office
Jonathan Rummel, Secretary of State's Office
Courtney Holliday, Treasurer's Office
Bruce Davis, Legislative Budget Office
Genie Whitesell, Attorney General's Office
Janie Porter, Attorney General's Office
Ted Hayden, Office of the State Architect
Mike Morrow, Department of Finance and Administration
Leah Dupree, Department of General Services
Bob Oglesby, Department of General Services
Lola Potter, Department of Finance and Administration
Steve Berry, Department of General Services
Chloe Shafer, Department of General Services
Dick Tracy, Tennessee Board of Regents
Robbi Stivers, University of Tennessee
William Wood, Comptroller's Office
Richard Rosenbaum, Department of General Services
Jason Huff, Senator Kyle's Office

DEPARTMENT OF GENERAL SERVICES

Lease Agreement

Requested Action: Approval of award and lease agreement

Location: Hamilton County – 1301 Riverfront Parkway, Chattanooga, TN - Trans. No. 13-01-951 (Flener)

Purpose: To provide leased office space for 245+/- staff moving out of the Chattanooga State Office Building and James R. Mapp Building

Term: 15 years - April 1, 2014 – March 31, 2029 (estimated pending build-out completion)

Proposed Amount: **48,407 Rentable SF:**

First Year Rent:	\$ 513,114.20	@10.60/sf
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Average Annual Rent Cost includes:	852,253.64	@17.61/sf
Utilities & Janitorial Services		
***Average Annual Total Cost:	\$ 853,700.00	@17.64/sf

***Includes \$4,314 average annual utility cost above average annual rent in years 11-15

Current Amount: Chattanooga State Office Building

147,269 Rentable SF

FY 2012 Operating and Maintenance Costs	\$1,394,302.00	@9.47/sf
Current Est. Deferred Maintenance Cost	859,225.00	@5.83/sf
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Total Est. First Year Costs	2,253,527.00	@15.30/sf
Estimated 15 year Average Annual Cost	\$2,921,816.96	@19.84/sf

James R. Mapp Building

75,445 Rentable SF

FY 2012 Operating and Maintenance Costs	\$749,847.00	@9.94/sf
Current Est. Deferred Maintenance Cost	460,613.00	@6.11/sf
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Total Est. First Year Costs	1,210,460.00	@16.05/sf
Estimated 15 year Average Annual Cost	\$1,623,576.40	@21.52/sf

Type: New lease- advertised- qualifications based

FRF Rate: \$18.00

Source of Funding: FRF Operating Funds

Lessor: Beltline at Howell Mill, LLC

Comment: This lease was procured using a qualification based RFP that takes into account both Qualitative and Cost factors. The Qualitative & Cost factors were weighted 40 percent and 60 percent, respectively.

The State has the right to terminate at any time without payment of a termination fee for (i) lack of funding for Tenant's obligations or (ii) termination of operations or programs because of a loss of funding. The State has a right to terminate with payment of a termination fee for (i) convenience after the 10th lease year; (ii) the availability of State owned space after the 10th lease year; or (iii) the consolidation of operations or programs due to loss of funding at any time. The termination fee is equal to the unamortized value of (i) the tenant build out, moving and architectural allowances and (ii) the lease commissions paid by the landlord in connection with the lease, plus (iii) an amount equal to unamortized difference in the Monthly Rental Installments rent during Lease years 1 and 2 versus Lease year 3. Holdover is at 100% of the base rent for a holdover term of one year with a 90 day notice of cancellation by the lessor or the State.

Jones Lang LaSalle commission amount is \$417,684 and the rebate to the State is \$45,153.

Previous Action: 04/22/2013 ESC Subcommittee deferred request to a special called meeting.
04/25/2013 ESC Approved Department's lease RFP utilizing qualifications based selection for Memphis, Nashville, Chattanooga and Knoxville

Minutes: 09/06/2013 ESC Comptroller Wilson began the discussion stating that his questions were related to the process and not necessarily to the leases. He asked Mr. Heimbach, with regards to the pilot project, what their experience was with this process, and what did a qualitative based lease mean. Mr. Heimbach responded that a qualitative lease takes factors into account such as square footage of floor area, location, proximity of space, previous service ability of landlord in a weighting basis compared to the cost of the lease. Comptroller Wilson asked if this was consistent with other proposal-based procurements, and was told "yes". Comptroller Wilson also asked if this was consistent with the terms of JLL's contract with the State to which Mr. Heimbach read the provision of JLL's contract that describes their responsibility to negotiate lease terms and obtain the best lease possible for the State. Comptroller Wilson asked Mr. Heimbach if their experience with this process was successful and if they would like to consider it in the future. Mr. Heimbach stated that they get better space for similar rates, but it is a more in-depth procurement that requires more commitment of time and resources. Additionally, they would like to work with staff to see when it is appropriate to use this process. Comptroller Wilson asked if the compensation of JLL was consistent with the contract, and was told "yes, with the contract and the market". In response to the Comptroller's question regarding commissions paid to JLL, Mr. Heimbach responded that the FRF rate is \$18 per square foot, and the maximum commission that JLL can receive is 4%; that the commission on these leases fell below this rate calculation. Comptroller Wilson asked if they had made the business decision to negotiate this lease since it was cheaper not to have termination for convenience provisions for the State on long term basis. Mr. Heimbach responded "yes", that termination fees are based on unamortized

upfront costs that the landlord has to bear. Comptroller Wilson asked if there were other non-standard lease provisions outside of what is normally done for the State. Mr. Heimbach stated that the procured change put an allowance in the lease; a tenant build-out cost. He said the lease was aligned with more standard commercial transactions with the space tailored more to the State's needs and a State procured design given to the landlord that will handle the construction under that allowance as part of the lease term. Treasurer Lillard voiced concern regarding lease termination fees and the loss of federal funding. He wanted to make sure that it was economical if federal funding was lost, and was told loss of federal funding will be covered under the terms of the leases. A motion was made, properly seconded, and passed without objection to approve the lease agreement and award to Beltline at Howell Mill, LLC.

DEPARTMENT OF GENERAL SERVICES

Lease Agreement

Requested Action: Approval of award and lease agreement

Location: Hamilton County – 5600 Brainerd Rd., Chattanooga, TN - Trans. No. 13-09-951 (Flener)

Purpose: To provide leased office space for 425 +/- staff moving out of the Chattanooga State Office Building and James R. Mapp Building

Term: 15 years - April 1, 2014 – March 31, 2019 (estimated pending build-out completion)

Proposed Amount: **81,267 Rentable SF:**

First Year Rent:	\$1,357,971.57	@16.71/sf
First Year Utility Cost:	97,520.16	@1.20/sf
Total First Year Cost:	1,455,491.73	@17.91
Average Annual Rent Cost includes:	1,565,597.90	@19.26/sf
Janitorial Services		
Average Annual Utility Cost:	112,430.45	@1.39/sf
Average Annual Total Cost:	\$1,678,028.00	@20.65/sf

Current Amount: Chattanooga State Office Building

147,269 Rentable SF

FY 2012 Operating and Maintenance Costs	\$1,394,302.00	@9.47/sf
Current Est. Deferred Maintenance Cost	859,225.00	@5.83/sf
Total Est. First Year Costs	2,253,527.00	@15.30/sf
Estimated 15 year Average Annual Cost	\$2,921,816.96	@19.84/sf

James R. Mapp Building

75,445 Rentable SF

FY 2012 Operating and Maintenance Costs	\$749,847.00	@9.94/sf
Current Est. Deferred Maintenance Cost	460,613.00	@6.11/sf
Total Est. First Year Costs	1,210,460.00	@16.05/sf
Estimated 15 year Average Annual Cost	\$1,623,576.40	@21.52/sf

Type: New lease- advertised- qualifications based

FRF Rate: \$18.00

Source of Funding: FRF Operating Funds

Lessor: East Nooga, LLC

Comment:

This lease was procured using a qualification based RFP that takes into account both Qualitative and Cost factors. The Qualitative & Cost factors were weighted 40 percent and 60 percent, respectively.

The State has the right to terminate the lease with payment of a termination fee for (i) convenience after the 10th lease year and (ii) for loss or lack of funding at any time. The termination fee is equal to the unamortized value of (i) the tenant build out, moving and architectural allowances and (ii) the lease commissions paid by the landlord in connection with the lease. Holdover is at 110% of the base rent for a holdover term of one year with a 90 day notice of cancellation by the lessor or the State.

Jones Lang LaSalle commission amount is \$767,066, and the rebate to the State is \$110,913.

Previous Action:

04/22/2013 ESC Subcommittee deferred request to a special called meeting.

04/25/2013 ESC Approved Department's lease RFP utilizing qualifications based selection for Memphis, Nashville, Chattanooga and Knoxville.

Minutes:

09/06/2013 ESC Comptroller Wilson asked how the utilities will be handled, and Mr. Heimbach responded that they would be costed for the first year and increased at an agreed upon rate. The Comptroller asked if this was consistent with commercial transactions and were procedures in place to look at energy uses, and was told "yes". A motion was made, properly seconded, and passed without objection to approve the lease agreement and award to East Nooga, LLC.

DEPARTMENT OF GENERAL SERVICES

Lease Agreement

Requested Action: Approval of award and lease agreement

Location: Shelby County – One Commerce Square, 40 South Main St., Memphis, TN - Trans. No. 13-01-952 (Flener)

Purpose: To provide leased office space for 479+/- staff moving out of the Donnelly J. Hill Building

Term: 15 years - April 1, 2014 – June 30, 2029 (estimated pending build-out completion)

Proposed Amount: 104,673 Rentable SF:

*First Year Rent:	\$1,322,805.06	@12.64/sf
Average Annual Rent Cost Includes: Utilities & Janitorial Services	1,921,435.93	@18.36/sf
Average Annual Total Cost: *Includes 3 months' rent abatement	\$1,921,435.93	@18.36/sf

Current Amount: Donnelly J. Hill Building
121,505 Rentable SF

FY 2012 Operating and Maintenance Costs	\$1,610,564.00	@13.26/sf
Current Est. Deferred Maintenance Cost	1,530,916.00	@12.60/sf
Total Est. First Year Costs	3,141,480.00	@25.86/sf
Estimated 15 year Average Annual Cost	\$3,342,602.55	@27.51/sf

Type: New lease- advertised – qualifications based

FRF Rate: \$18.00

Source of Funding: FRF Operating Funds

Lessor: Memphis Commerce Square Partners, LLC

Comment: This lease was procured using a qualification based RFP that takes into account both Qualitative and Cost factors. The Qualitative & Cost factors were weighted 40 percent and 60 percent, respectively.

The lease contains (i) a termination option for loss or lack of funding and (ii) a termination option for convenience after the 10th lease year. Each termination option may be exercised with the payment of a termination fee. The termination fee is equal to the unamortized value of (i) the tenant build out, moving and architectural allowances and (ii) the lease commissions paid by the landlord in connection with the lease plus (a) any rent due prior to the effective date of the lease, plus (b) an amount equal to the sum of the rent abated. State has the option of a 3 month extension with four months notice. After

the termination date, the, holdover is at 125% for the first six months and 150% for perpetuity.

Jones Lang LaSalle commission amount is \$953,519, and the rebate to the State is \$148,204.

Previous Action: 04/22/2013 ESC Subcommittee deferred request to a special called meeting.
04/25/2013 ESC Approved Department's lease RFP utilizing qualifications based selection for Memphis, Nashville, Chattanooga and Knoxville

Minutes: 09/06/2013 ESC Comptroller Wilson stated that the State has a history of holding over leases and asked what the procedure will be to prevent these fees in the future. Mr. Heimbach responded that they were addressing the issue and plan to work with SBC Staff to establish policies and procedures that address timelines. Secretary Hargett asked if the cost of moving would be priced in analyzing a lease, and Mr. Heimbach responded that those costs could be analyzed as a part of the analysis. Secretary Hargett asked if there was parking for 500 people, and was told "yes". A motion was made, properly seconded, and passed without objection to approve the lease agreement and award to Memphis Commerce Square Partners, LLC.

DEPARTMENT OF GENERAL SERVICES

Lease Agreement

Requested Action: Approval of award and lease agreement

Location: Davidson County – 200 Athens Way, Nashville, TN - Trans. No. 13-01-950 (Flener)

Purpose: To provide leased office space for 301+/- staff moving out of the Cordell Hull Building.

Term: 15 years - April 1, 2014 – March 31, 2029 (estimated pending build-out completion)

Proposed Amount: 64,571 Rentable SF:

*First Year Rent:	\$ 914,755.83	@14.17/sf
Average Annual Rent Cost Includes:	1,253,351.81	@19.41/sf
Utilities & Janitorial Services		
Average Annual Total Cost:	\$1,253,351.81	@19.41/sf

*Includes 3 months' rent abatement

Current Amount: Cordell Hull/Central Services Building

377,919 Rentable SF:

FY 2012 Operating and Maintenance Costs	\$3,249,078.00	@8.60/sf
Current Est. Deferred Maintenance Cost	3,120,899.00	@8.26/sf
Total Est. First Year Costs	6,369,977.00	@16.86/sf
Estimated 15 year Average Annual Cost	\$7,679,314.08	@20.32/sf

Type: New lease- advertised – qualifications based

FRF Rate: \$18.00

Source of Funding: FRF Operating Funds

Lessor: IPC MetroCenter, LLC

Comment: This lease was procured using a qualification based RFP that takes into account both Qualitative and Cost factors. The Qualitative & Cost factors were weighted 40 percent and 60 percent, respectively.

The lease contains a termination option for loss or lack of funding at any time without penalty. It also includes a termination option for convenience after the 10th year of the lease with a termination fee. The termination fee is equal to the unamortized value of (i) the tenant build out, moving and architectural allowances and (ii) the lease commissions paid by the landlord in connection with the lease. Holdover is at 100% and extended monthly. The holdover can be terminated by the lessor or the State with 90 day notice.

Jones Lang LaSalle commission amount is \$560,419, and the rebate to the State is \$69,584.

- Previous Action:** 04/22/2013 ESC Subcommittee deferred request to a special called meeting.
04/25/2013 ESC Approved Department's lease RFP utilizing qualifications based selection for Memphis, Nashville, Chattanooga and Knoxville
- Minutes:** 09/06/2013 ESC Approved a lease agreement and award to IPC MetroCenter, LLC

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There being no further business, the meeting adjourned.

Approved:

Commissioner Larry B. Martin
Department of Finance and Administration