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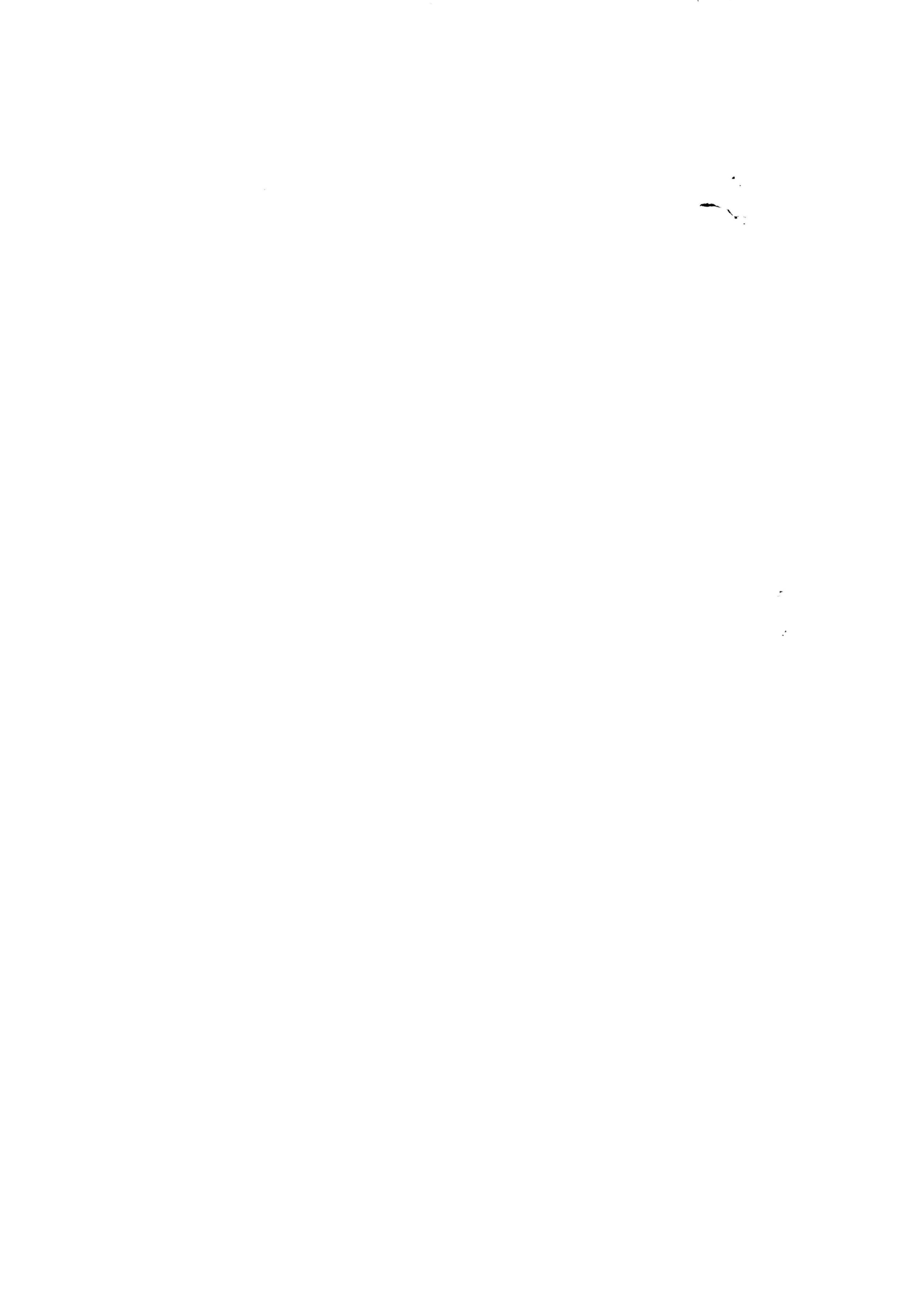
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DEPARTMENT OF THE TREASURY  
GENERAL SERVICES ADMINISTRATION  
OFFICE OF LEASING OPERATIONS

PERFORMANCE REVIEW

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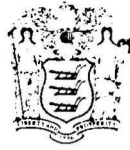
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June 15, 1992

Members of the Legislative Services Commission

Gentlemen:

We have completed a performance review of the state's leasing program administered by the Office of Leasing Operations, General Services Administration, Department of the Treasury as of March 31, 1992. We have evaluated the ability of the program to procure space in an efficient and economical manner, and the adequacy of the system to monitor and control leasing activity.

We found that the leasing operation is a \$200 million program with objectives beyond the acquisition of space, but there is no enabling legislation establishing or prioritizing the program's objectives. The program uses state leases to support urban renewal and stimulate private development, which increases municipal and school tax bases. The Office of Leasing Operations estimates that the state will expend about \$20 million for local property taxes in fiscal year 1993. Legislation is needed to define the mission of the program, assure that leases are subject to competitive bidding, and establish oversight procedures.

The lack of a comprehensive master plan of the state's current and future facility needs hinders the General Services Administration's ability to provide space in the most efficient and economical manner and limits monitoring their success in achieving their objectives. To provide guidance for a plan, we have recommended the establishment of an advisory panel which would include members knowledgeable in all phases of acquiring facilities.

The current system does not provide adequate opportunity for legislative involvement during either the planning or acquisition stages of the program, yet the presiding officers of the

legislature are expected to approve the leases. Additional budget detail should be submitted to the legislature to permit them to make informed decisions during the appropriation process related to funding requests and major initiatives that are planned.

State agency requirements for requested space are often so restrictive that competition in site selection and negotiation is eliminated. The requesting agency should have less authority in the selection of space or they should be made accountable for their space costs, including renovations. In addition, all lease negotiations should begin with competitive proposals.

Management in the Office of Leasing Operations frequently negotiates leases, thereby weakening the internal control system because management also reviews and approves the negotiations.

Detailed information on the above issues, along with additional observations and recommendations, are contained in our report. Our review was made in accordance with generally accepted government auditing standards and this report is submitted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1.6 of the State Constitution and N.J.S.A. 52:24-4.

Respectfully submitted,



Richard L. Fair  
State Auditor

REPORT



DEPARTMENT OF THE TREASURY  
GENERAL SERVICES ADMINISTRATION  
OFFICE OF LEASING OPERATIONS  
LEASING PROGRAM

BACKGROUND

The Office of Leasing Operations is part of the General Services Administration, Department of the Treasury. The current director of the office is Mr. Anthony R. Mazzella. The office serves as New Jersey's primary agent for the procurement and control of leased space. The office has also been charged with the responsibility to consolidate and reduce leased space whenever possible. Leased space is not limited to office space. The Office of Leasing Operations also acquires space for day care centers, state police barracks, unemployment offices, motor vehicle agencies, parking, and boat docks.

The leasing program is also used as a mechanism through which the state can anchor and stimulate urban redevelopment initiatives through its lease commitments. Providing opportunities for private sector development has the effect of broadening municipal tax bases.

The cost of providing state agencies with appropriate leased space is funded through the central rent account.

OBJECTIVES OF THE REVIEW

The purpose of this review was to evaluate the policies and procedures related to the state's real estate leasing program. We focused on the adequacy of current procedures to procure, monitor and control the current and proposed leased space of state agencies. Our primary objectives were to ensure that leasing was being done in an efficient, effective and economical manner. In addition, we evaluated the adequacy of information provided to support executive and legislative approvals, and provided recommendations in those areas where improvements can be made. We did not evaluate the effectiveness of the urban renewal initiatives included in the leasing program. In addition, we did not evaluate the economy or necessity of renovation costs.

SCOPE OF THE REVIEW

The review included leases listed as active at March 31, 1992 by the Office of Leasing Operations. Analyses were prepared for the period July 1, 1987 to March 31, 1992. Evaluations of the lease management information system and the legislative leasing process were also conducted.

#### METHODOLOGY OF THE REVIEW

To understand the state's leasing program, we studied pertinent legislation and reviewed the system of internal control. We interviewed individuals involved in the lease process. A sample of 36 leases was selected for testing. Site visits were made to all locations in our sample to verify data contained in the lease files. Lease data, as well as rent projection and payment data, were subjected to review and analysis, including reconciliation with the state accounting system. Interviews were also conducted with representatives of the Senate and Assembly staffs, the Office of Legislative Services, N.J. Building Authority, N.J. Economic Development Authority, the Department of the Treasury and the N.J. Commission on Capital Planning and Budgeting. Questionnaires were sent to other states to determine their leasing practices and to New Jersey agencies currently occupying leased space to obtain insight from the users' perspective.

#### OBSERVATIONS AND CONCLUSIONS

The leasing program has become a mechanism to stimulate economic development throughout the state. Although this goal has had a major impact on the leasing program and affects obtaining the most economical leases, we found no legislation or regulation which has established or prioritized the program's objectives. In addition to the lack of formal guidelines, we found that the state does not have a comprehensive master plan which would provide specific information on the current and future direction of the leasing program. The legislature is requested to provide funds through the budget process and approve all leases. However, they do not receive adequate or timely information to effectively fulfill their responsibilities.

We also found areas of the internal control structure that need to be strengthened. Management frequently performs negotiations directly, instead of delegating this responsibility to subordinates, and leases were negotiated without obtaining competitive proposals. The Office of Leasing Operations does not follow up after occupancy and monitor space utilization effectively.

#### GENERAL RECOMMENDATIONS

We recommend that legislation be enacted to identify the mission and objectives of the leasing program. We also recommend that more information be given to the legislature to assure that the objectives are being met in the most economical manner. Throughout this report, we offer additional recommendations for improvements in the planning and operations of the program related to:

- requiring competition in contracting lease space,
- improving controls and documentation of the leasing process,
- developing of a statewide master plan of space needs,

- establishing a space planning advisory panel,
- establishing accountability for the costs incurred, and
- using state authorities to supply space through lease-purchase agreements at favorable financing rates.

Specific observations and issues disclosed during our review are detailed below.

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NEW JERSEY STATE LEGISLATURE  
OFFICE OF LEGISLATIVE SERVICES  
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PLANNING

OBSERVATIONS

The budget message specifies that the Office of Leasing Operations performs the functions of acquiring and managing space. However, as described in the background section of this report and the office's internal budget documents, they also operate a program which indirectly provides state aid to municipalities. This is accomplished by using state lease commitments to encourage private sector development resulting in additional tax ratables for the municipalities involved. Lease commitments are also intended to encourage urban renewal projects in targeted cities and to place state employees in business districts.

In our review, we found no legislation establishing this program. The basis for the program rests primarily on a 1976 executive order which declared a commitment to remain in the cities of Camden, Newark, Paterson and Trenton. The leasing program, including debt service on lease purchase agreements, is now a \$200 million program and is supporting redevelopment in cities and counties throughout the state. Legislation is needed to define the mission of the leasing program.

the program needs enabling legislation and a master plan to establish goals and objectives

The State of New Jersey does not have a comprehensive master plan for its current and future space needs. This situation was previously cited in the Governor's Management Review Commission report on State Facilities Maintenance dated May 10, 1991. Our survey of other states found that more than 50% of the states responding had facility master plans. Although some New Jersey departments have developed plans and the Department of the Treasury is attempting to determine future leasing requirements, a more comprehensive approach is necessary. The state needs to develop and maintain a plan which will provide for future needs in an efficient and economical manner.

An important element of this master plan would be to determine the appropriate mix of state owned and leased space. Current indications are that the General Services Administration will address these space needs primarily through leasing. The alternatives of state construction or lease purchase are not normally considered. Lease versus purchase is discussed elsewhere in this report.

The Office of Leasing Operations has recognized the need for planning and has recently initiated a program to meet with agencies to discuss leases expiring during the next year. This should

assist in determining each agency's immediate needs, but does not address long range needs.

#### RECOMMENDATIONS

In order to clarify the goals and objectives of the state's leasing program, we recommend that legislation be enacted defining the mission of the leasing program and addressing such issues as:

- requiring the executive branch to establish specific objectives which can be used to measure actual performance,
- defining the extent to which the leasing program should be used to support urban renewal,
- defining the responsibilities of the General Services Administration and the limits of their authority to make decisions on which space is to be leased,
- defining reporting requirements of the leasing program, and
- establishing oversight responsibilities.

The development and maintenance of a comprehensive master plan is essential to ensure that the state's facility requirements are met in an efficient and economical manner. We recommend that the General Services Administration undertake a statewide survey of current and future space needs. This survey should be updated annually and include both state owned and leased space. The current planning meetings held by the Office of Leasing Operations could become an integral part of the survey if expanded to include discussions of long range needs.

a state space  
planning  
advisory panel  
should be  
established

After the state's space needs have been identified by the General Services Administration, a state space planning advisory panel should be established. The panel would review the state's space needs and make recommendations to the State Treasurer for a comprehensive master plan,

detailing how best to meet those needs. Recommendations should address such topics as urban renewal, the length of leases, renovations, and lease versus purchase. For this panel to be effective, it should include members knowledgeable in all phases of providing facilities, including representatives from the General Services Administration, the N.J. Building Authority, the N.J. Economic Development Authority, the Office of Management and Budget, and the Legislature.

Once a master plan has been completed, it could be used in conjunction with the current Office of Leasing Operations rent cost projections to develop and support the central rent account budget.

## BUDGET PROCESS

### OBSERVATIONS

The Office of Leasing Operations manages an annual budget of approximately \$200 million. For fiscal year 1991, this budget was greater than the operating budgets for 9 of the 19 executive branch departments, the Chief Executive's Office, the Legislature, or the Judiciary. We found the budgetary information provided to the Office of Legislative Services and to the legislature to be inadequate. The information provided for fiscal year 1993 does not contain complete disclosure of the goals and objectives of the leasing program nor does it provide descriptions of major space acquisition initiatives planned for 1993 and beyond.

We found the budgetary information provided to the Office of Legislative Services and to the legislature to be inadequate.

In addition to the lack of general information, only minimal information is provided in the budget concerning the effect of lease expenditures on various

state agencies or programs. Since the accounting system does not charge leasing costs to each program, the central rent account is the only place where the information is available. Unless rental expenditures are disclosed for specific programs, the ability to monitor and hold program managers accountable for their rental expenditures and the efficient utilization of leased space is significantly reduced.

### RECOMMENDATIONS

We recommend that the annual budget submitted to the legislature include significantly more information about leasing. A detailed description of the program's objectives and goals is essential for both the executive and legislative authorities to evaluate the budget request. In addition, when measurable objectives and goals have been defined and approved, they provide criteria against which to evaluate the effectiveness of the program.

We further recommend that the annual budget request correspond with the comprehensive master plan and include detailed descriptions of the major space initiatives requested, including the financial impact of those initiatives on current and future budgets. Information such as cost, renovation expenses, length of the leases, locations, and funding sources should be provided. In addition, budget versus expenditure information should be provided for the programs which incur significant leasing costs.

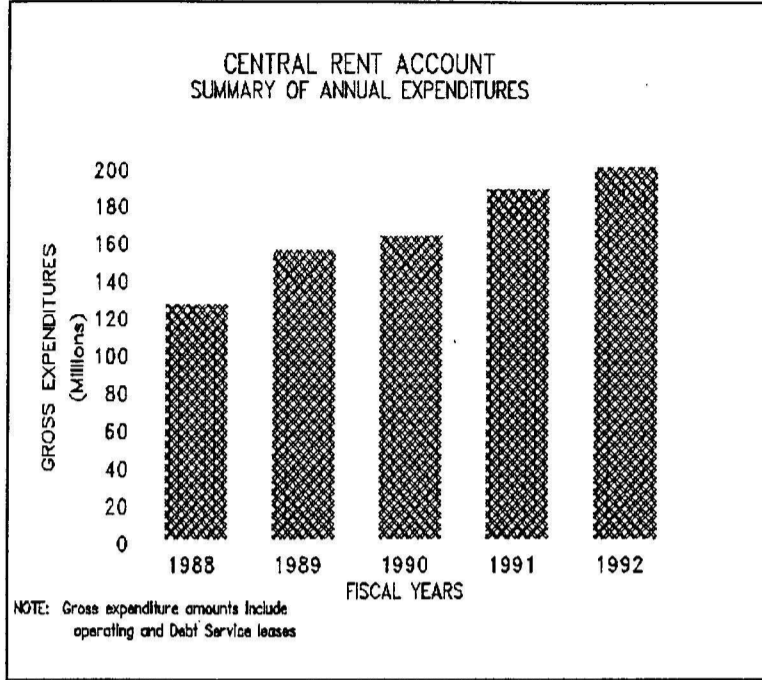
A detailed budget document would provide necessary information to properly evaluate this \$200 million program and allow the

legislature to approve or disapprove the future plans of the program through the appropriation process. It would also inform legislative leadership of the leases they will be requested to sign in the future.

FACTORS AFFECTING THE COST OF LEASED SPACE

OBSERVATIONS

The Office of Leasing Operations manages an annual budget of approximately \$200 million. The cost of the program, as depicted in the graph, has increased 59% in the last four years. The state should be able to negotiate favorable rental rates because it is such a stable tenant. However, other factors have the effect of increasing costs. Although commercial leasing cost charts show that the rental rates of the state's leases were generally comparable to the average cost of commercial space, steps could be taken to improve the economy of the program.



Economy is not the only objective of the leasing program. It is not even the primary objective. The state's objective to support the renewal of cities through private development results in a greater amount of space in urban downtown areas where costs are higher. In addition, the need to satisfy program needs of the agencies involved sometimes reduces the ability of the state to negotiate effectively. The General Services Administration has also committed to leasing space which meets current building codes and to providing barrier-free access to its offices; our questionnaire completed by state agencies indicates that this objective is being accomplished.

Leases were frequently negotiated without obtaining competitive proposals. The Office of Leasing Operations has recently adopted a policy of advertising for proposals to increase competition.

leases are negotiated without competitive proposals

However, agency requirements for space are often so restrictive that opportunities to obtain competitive proposals are reduced or even eliminated. We noted that state agencies are often

permitted to select a site from any lease proposal that meets their

stated needs. They are not required to select the lowest price. For 28 of the 36 leases tested, agency specifications significantly restricted the opportunity for competitive proposals or the agency did not select the most economical site. The lack of accountability by agencies for their rent expenditures contributes to this situation. Although the Office of Leasing operations is accountable for the central rent account budget, they do not have the authority to make the final decision as to the selection of leased space. As a result, responsibility and authority have not been given to the same agency.

renovation  
costs should  
receive greater  
consideration

Renovation costs do not receive adequate consideration in the site selection process. Remodeling of facilities is frequently necessary prior to occupancy to ensure that the facility is suited to the purposes of the agency that will

be occupying it. Renovations range from reconfiguring modular furniture to ground-up reconstruction and can exceed \$5 million. The renovation costs for our 36 sample leases totaled \$13 million and ranged from \$1,500 to \$3.4 million. Specifically, we noted:

- Formal comparisons of lease proposals which include projected renovation costs, are not prepared. Without documented comparisons of lease proposals, there is no assurance that the cost of renovations received adequate consideration in the selection of a specific site.
- The cost of remodeling a facility is not always fully disclosed in the notice of proposed lease. Renovations may be included in the rent or paid lump sum. Depending on the approach used, rental price per square foot can vary significantly. For example, if renovation costs of \$1 million for 100,000 square feet were made by the lessee and amortized over a 20 year lease, the annual rent would increase 50 cents per square foot. If the lease was for five years, the annual rent would increase \$2 per square foot. Finally, if the costs were paid lump sum by the state, base rental per square foot would not be affected. These effects must be fully disclosed in the notices of proposed leases.
- When amortizing renovation costs over the life of the lease, the landlord provides the funding for the work. The monies are frequently obtained through commercial lending at prevailing rates of interest. The state therefore, is effectively paying these prevailing interest rates and not taking advantage of its excellent credit rating or its tax exempt status.
- Renovations are designed to meet the requirements of the agencies planning to occupy the space, yet these agencies do not have any responsibility for the renovation costs.

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More than 40% of the state's leases are currently in a month-to-month status. Inherent in this type of agreement is a high risk of eviction or unanticipated rate increases. Five of the ten month-to-month leases in our sample had been subjected to eviction or extraordinary rate increases of up to 100%. Our testing disclosed leases frequently in month-to-month status for two years and more and one lease in this status for seven years. This situation has many causes, including agencies' uncertainty about future program needs, delays in preparation of new sites, or agencies anticipating new program initiatives which are subsequently not funded. The lack of a statewide master plan and budget detail also contributes to this situation.

month-to-month  
leases have a high  
risk of eviction  
or unanticipated  
rate increase

The lack of a master plan affects the review of the space planning request (SPR). This document is submitted by an agency to renew a lease or obtain a new facility. The request is reviewed by the Office of Leasing Operations to determine if the size of the space requested is reasonable and the Office of Management and Budget verifies the number of employees that will be located at the site. However, they cannot adequately evaluate user agency submissions of space needs and specifications to determine if they are valid and justified, unless they have an approved master plan and can identify how the specific space request fits into the plan.

#### RECOMMENDATIONS

We recommend that the Office of Leasing Operations deny agency space requests that appear excessively restrictive, unless justified by extraordinary circumstances. We also recommend that competitive proposals be obtained for all leases and written evaluations be prepared comparing each responsive lease proposal. The comparisons should include projected renovation costs and serve as support for the Office of Leasing Operations' recommendations for the most economical sites. During the final selection stage of lease negotiations, the Office of Leasing Operations should evaluate all proposals which reasonably meet programmatic needs and identify those which would be most cost effective. The agency would then make a final selection only from this group. This would allow program needs to be addressed while assuring that cost has been given proper consideration.

We recommend that the state take advantage of its favorable credit status when funding renovation costs. Renovations should be funded by appropriation or through certificates of participation issued by the state. In addition, agencies occupying the space should be accountable for the costs of renovation either through the budget or other reporting process. When reporting rental costs in the

notices of proposed leases, the effect of renovations must be fully disclosed. A full description and justification of proposed renovations should accompany each notice of proposed lease.

As recommended previously, a comprehensive master plan and detailed annual budget are essential to properly evaluate and satisfy individual space requests. The budget submission should include lease costs and projected costs detailed by program. This data could then be reviewed by the legislative analysts responsible for the specific programs and could also be reviewed in total by the analyst responsible for the leasing program. Detailed information would also assist the Office of Leasing Operations to reduce the number of month-to-month leases since the office would be better able to determine when the existing leases could be vacated.

## ACQUISITION VERSUS LEASE

### OBSERVATIONS

The state has generally followed a policy of meeting its office space needs by leasing private facilities, especially outside of the Trenton capital complex. However this may not be the most cost effective means of providing office space for state employees. We found that the construction of buildings through lease-purchase agreements with governmental authorities has generally proven to be an economical alternative, but this option has only been used in the Trenton capital complex. Currently there is no legislation or policy that requires consideration of this alternative prior to entering a lease agreement. It should be recognized that acquisition is not always the best alternative and following are some of the advantages and disadvantages to leasing verses ownership.

#### Advantages of Leasing

- State can more easily adjust to changes in space requirements.
- Leased space is readily available and is adaptable to immediate needs.
- State leases can be used to encourage private development in urban areas by guaranteeing a percentage of occupancy.
- Local governments continue to receive property tax revenues from owners of property leased to the state.

#### Advantages of Ownership

- The state builds equity in the property.
- Costs to construct a building are less than long term lease costs.
- Debt service payments for construction projects are constant over period of bonds.
- Eliminates possible external influences each time a lease is negotiated.

#### Disadvantages of Ownership

- Building locks state into location and makes it more difficult to respond to changing space needs.
- Building requires advanced planning and time to construct.
- Buildings are fully occupied by the state and may not stimulate as much development as partially state occupied private facilities.
- Local governments lose property taxes.

#### Disadvantages of Leasing

- The state does not build equity and has no asset at end of lease term.
- Long term lease payments are greater than costs to construct.
- Rental costs may increase over the term of the lease.
- Possible external influences affecting site selection or negotiations.

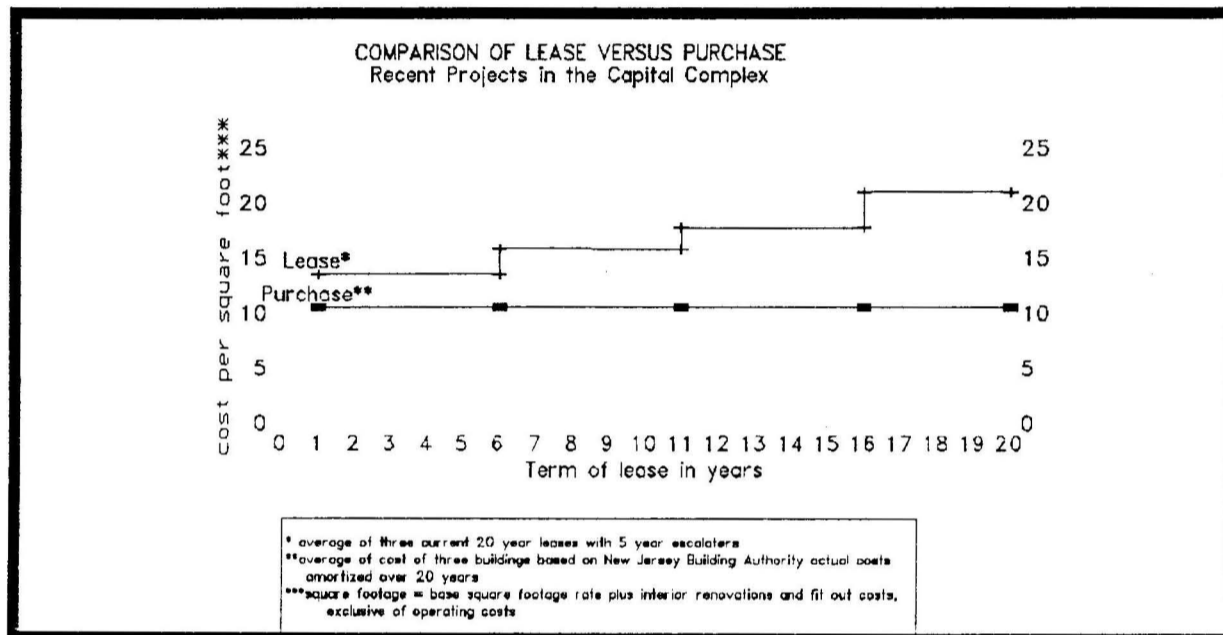
Advantages of Ownership(cont)

- State can directly control the maintenance and operating costs of the facilities.
- Reduces or eliminates the ability of state agencies to request unnecessary moves.

Disadvantages of Leasing(cont)

- Can be difficult to get repairs made when the lessor is responsible for the costs. Lessor has no incentive to incur operating expenses in the most cost effective manner where they will be reimbursed by the state.
- Agencies may request moves more often than necessary, due to the flexibility provided by leases.

As stated above, lease-purchase agreements with governmental authorities such as the N.J. Building Authority and the N.J. Economic Development Authority have proven to be a feasible method to reduce space costs and increase equity, even when capital funding is limited. Through the use of tax free bonds, the authorities are able to finance projects at very favorable rates and pass the savings on to the state. The following chart, which compares leased space to comparable N.J. Building Authority projects in Trenton clearly illustrates the cost benefits of such arrangements.



There are cost benefits to lease purchase agreements, but consideration must also be given to the state's commitment to stimulate urban renewal by locating state offices in privately owned buildings in urban centers. Although state owned property is exempt from local taxes, the private facilities are not and are added to the local tax rolls, increasing the base for county, municipal and school taxes. Municipalities are currently granted in-lieu-of-tax payments for state owned properties, but such payments are less than the property tax on a privately owned building because they exclude school taxes. The Office of Leasing Operations estimates that the state will reimburse lessors approximately \$20 million for property taxes in fiscal year 1993.

#### RECOMMENDATIONS

We recommend that the state require a written evaluation of lease versus acquisition when specified levels of space, cost, or lease terms are met. An appropriate stage of the planning process for this evaluation would be when the proposed space planning advisory panel reviews the state's needs. This method would utilize the expertise of the panel members and provide recommendations prior to finalizing the master plan.

If both legislative and executive branch authorities intend to continue to support urban development through the leasing program, consideration could be given to enhancing the state's in-lieu-of-tax payments. This would permit the state to take advantage of the benefits of lease-purchase and not harm the municipalities involved.

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INTERNAL CONTROLS

OBSERVATIONS

The current lease processing system has established controls over the selection, approval, and payment processes. During our review of these procedures, we noted areas where internal controls can be strengthened. Discussions of these areas and our recommendations follow.

We found that negotiations are frequently performed by management within the Office of Leasing Operations. The office did not have

management's  
direct  
involvement in  
negotiations  
weakens internal  
control

a formal policy stating when various levels of management should become involved with the negotiation process. When levels of management responsible for reviewing and approving negotiations are involved in the actual negotiations, they cannot perform an independent review

and the control benefits of segregation of duties are lost.

Our review of the negotiation process noted that although the Office of Leasing Operations had a flow chart of their process starting with the negotiator to final approval by the General Services Administrator, documentation that the required reviews had been performed was lacking.

The utilization of space after initial occupancy is an area in which the Office of Leasing Operations does not have adequate information because they do not conduct periodic visits to leased sites. Although the office's compliance unit addresses problems with the lease or the building, they only conduct inspections prior to renewing a lease to identify building code violations. Periodic observation is necessary to evaluate the success of the interior design or if agency space usage has changed.

the Office of  
Leasing  
Operations does  
not conduct  
periodic site  
visits to  
evaluate space  
utilization

Periodically, it becomes necessary to adjust the lease management information system data base for changes to rent payments, the lessor's name or address, or lease terms. These changes subsequently affect the monthly automatic payments. The document used to initiate the changes (payment action form) is prepared and signed by the employee who initiates the change. The information is then entered into the data base by authorized data entry personnel. We noted that independent reviews of the changes were

not documented. We also found that adjustments made to lessor information without a payment action form may not be detected because the system does not provide periodic listings of changes in the database.

#### RECOMMENDATIONS

We recommend that policies be established identifying when management should become directly involved in the negotiation process and what alternate procedures should be performed in order to assure an independent review. The Office of Leasing Operations should also establish procedures to assure that all required reviews of negotiations and proposed leases are documented.

The establishment of a periodic site visitation process is essential to determine if there is proper utilization of space and to evaluate the effectiveness of interior design. These visits should be documented and used to determine if utilization can be improved. This would also provide additional information for use in the process of assessing future space needs.

We recommend that the Office of Leasing Operations establish a procedure that requires each payment action to be reviewed and approved by someone other than the person who prepares the form or enters the data into the system. In addition, the system security should be enhanced by providing periodic reporting of all changes for independent review.

LEASE PROCESS - LEGISLATIVE APPROVAL

OBSERVATIONS

We found that the leasing process is not finalized in a timely manner. The average length of the process for leases in our sample was 20 months, while 20 of 23 states responding to our questionnaire stated that the duration of their leasing process was one year or less. A major factor for the length of the process in New Jersey was the time required to obtain legislative signatures. Although the presiding officers are required to approve the lease, they are generally not notified that a lease is being processed until they receive the notice of proposed lease (NPL) to sign. Furthermore because of historically untimely legislative approval, the Office of Leasing Operations often proceeds with the lease prior to obtaining the approvals. In some instances, they will occupy the space and begin making rent payments. The current system requires legislative approval, yet hinders adequate legislative involvement.

RECOMMENDATION

We previously stated that a master plan and detailed budget would provide legislative leaders with specific information on leasing activity. To further assist them, we recommend that an informational copy of the approved space planning request (SPR) be forwarded to a legislative analyst for comparison to the approved budget. This would alert the legislature that a lease action has started and would permit an opportunity for inquiries prior to the receipt of the notice of proposed lease. We further recommend that the notice be sent to the presiding officers as soon as it is approved by the General Services Administrator. The Office of Leasing Operations should meet with legislative representatives to define the specific information which should be provided with notices of proposed leases. The Office of Leasing Operations would then be assured they are providing the legislature with information needed to approve the lease. Additional documents that would be informative are the lease proposal comparison sheets and the documented approvals of the lease negotiation review process.

the  
legislature  
needs  
information  
earlier in  
the process

In addition to the space planning requests and notices of proposed leases, a periodic narrative report should be submitted to the legislature which would update the status of initiatives and explain any problems encountered.

Establishing the above procedures would enable the legislative leadership to be better informed of leasing actions throughout the process and to be provided with additional assurances of adequate control.

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NEW JERSEY STATE LEGISLATURE  
OFFICE OF LEGISLATIVE SERVICES  
OFFICE OF THE STATE AUDITOR

## OTHER MATTERS

### STORAGE SPACE

The Office of Leasing Operations has recently undertaken to eliminate leases for storage space. Our visits to storage locations disclosed sites where the space was underutilized and we therefore, concur with this undertaking. Storage space currently costs the state about \$3 million per year.

### VACANT SPACE

The Office of Leasing Operations identifies leases with an annual cost of about \$2 million that are designated as vacant space. These vacancies sometimes occur because the lease is near expiration and the state does not plan to renew. Other vacancies are temporary and are awaiting renovations or occupancy by another state agency. We recognize that vacant space will occur as long as the state is in the process of consolidating in urban areas. The implementation of our recommendation for a comprehensive master plan would cause potential vacancies to be identified early so action can be taken.

### LEGISLATIVE LEASES

Our review of internal controls disclosed that there is a lack of segregation of duties in the processing of rent payments for legislative leases. The person within the Office of Legislative Services who calculates and authorizes the rental payments also reviews the payments for propriety. We noted no independent review of the amount prior to making the rental payments. Our review of April 1992 payments noted six instances where incorrect rent had been paid ranging from an underpayment of \$400 to an overpayment of \$200. The Office of Legislative Services should provide for independent review of rental amounts prior to payment.

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NEW JERSEY STATE LEGISLATURE  
OFFICE OF LEGISLATIVE SERVICES  
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## INTERNAL CONTROL REPORT

We have completed a review of the adequacy of the state's leasing program. As part of our review we considered the internal control structure, including applicable internal administrative controls, related to leasing to the extent we considered necessary to evaluate the structure as required by Government Auditing Standards, issued by the Comptroller General of the United States.

For the purpose of this report, we have classified the significant internal accounting and administrative control structure policies and procedures related to leasing in the following categories:

- Lease negotiation process
- Planning and budgeting process
- Recording and reporting information in the Lease Management Information System data base
- Legislative leasing process
- Rent payment process

The management of the State of New Jersey is responsible for establishing and maintaining the internal control structure used in administering the state leasing system. In fulfilling that responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss and misuse; reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure included all of the applicable control categories listed above. Our consideration of the structure included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses. Since our evaluation and testing indicated that controls were not adequate, we conducted more extensive testing to determine if agencies were complying with purchasing policies and procedures.

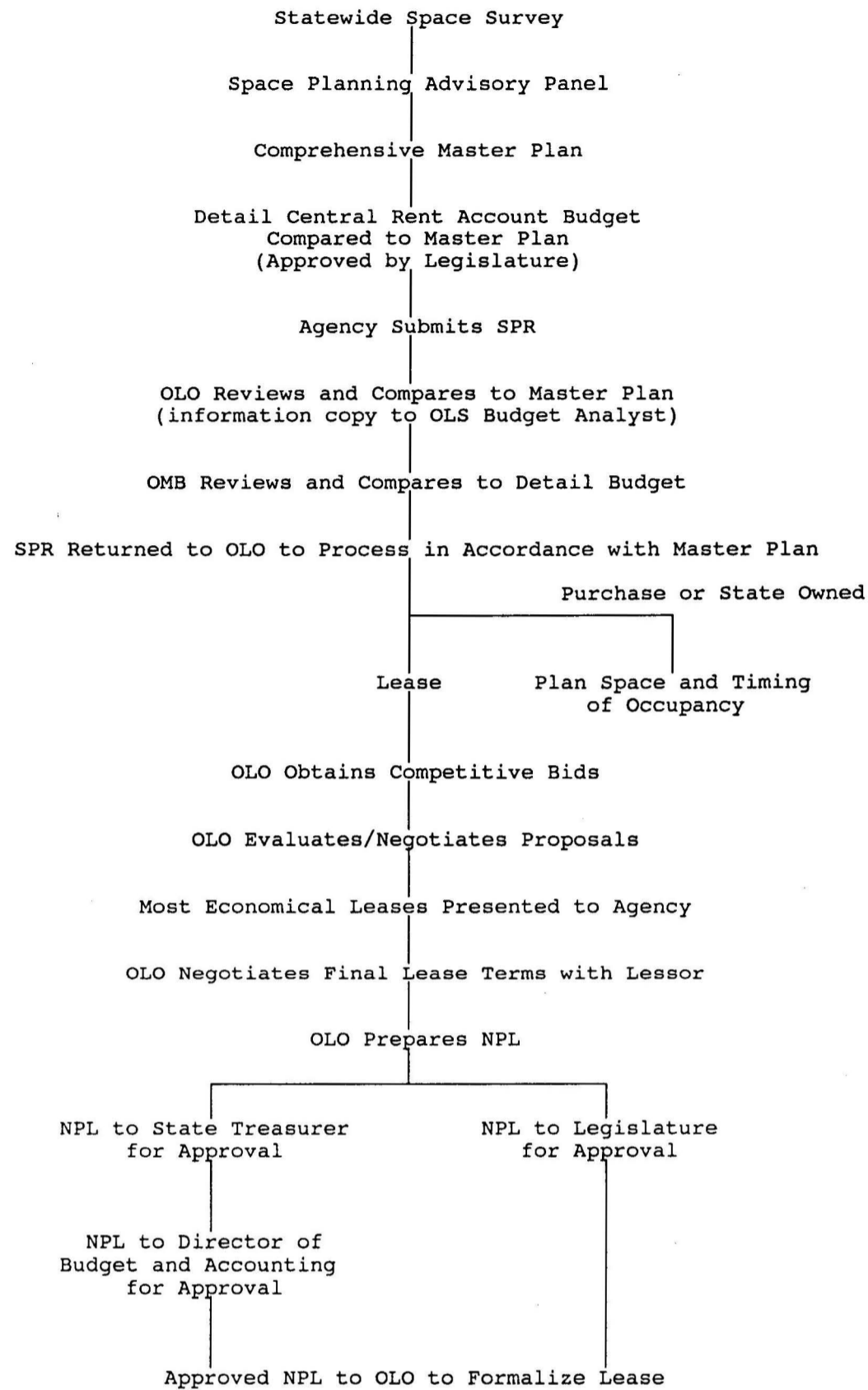
We noted certain matters involving the internal control structure

and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data. These conditions are described in the accompanying observations and recommendations of this report.

EXHIBITS



PROPOSED LEASE SYSTEM



OMB-Office of Management and Budget      OLO-Office of Leasing Operations  
 GSA-General Services Administration      NPL-Notice of Proposed Lease  
 SPR-Space Planning Request

SUMMARY OF STATE AGENCY QUESTIONNAIRE RESULTS

EXHIBIT II

As part of our review, we surveyed state agencies to obtain insight into how the states' leased space is viewed from their agencies perspective. The questionnaire also provided an additional source to substantiate data contained in the lease files of the Office of Leasing Operations. We selected 145 leases executed after 1989, and sent a questionnaire to the agencies occupying the leased space. We received 115 responses.

The following is a summary of the responses indicating the agencies' ratings of conditions at their current and prior locations:

	<u>CURRENT SPACE</u>					
	NUMBER OF RESPONSES	VERY GOOD	GOOD	AVERAGE	POOR	VERY POOR
Employees space	101	39%	35%	17%	7%	2%
Handicapped access	98	38%	23%	23%	9%	7%
Parking	108	32%	31%	25%	5%	7%
Heating/Air cond.	108	16%	36%	32%	14%	2%
Security	96	24%	35%	30%	10%	1%
General areas	354	29%	25%	35%	7%	4%

	<u>PRIOR SPACE</u>					
	NUMBER OF RESPONSES	VERY GOOD	GOOD	AVERAGE	POOR	VERY POOR
Employees space	55	5%	18%	15%	35%	27%
Handicapped access	54	11%	22%	28%	20%	19%
Parking	53	13%	17%	30%	25%	15%
Heating/Air cond.	53	5%	13%	40%	25%	17%
Security	48	14%	19%	33%	21%	13%
General areas	184	9%	11%	34%	23%	23%

Respondents indicated that in 91% of the moves, their agencies' needs had been addressed. Answers that pertained to who initiated a move and why agencies moved were completed by 57 agencies and are summarized as follows:

<u>MOVE INITIATED BY</u>			<u>REASONS FOR THE MOVE</u>		
DEPT/AGENCY	RESPONSES	%		RESPONSES	%
DEPT/AGENCY	46	69%	Consolidation	8	10%
GSA	15	21%	Need for space	21	26%
Other	6	10%	Quality of space	29	36%
			Other	22	28%

We received 111 responses to the question of whether an agency has plans to move. Twenty three respondents indicated that they planned to move, of which 17 plan to move in the current year, 2 within three years, and 4 will move after three years.

RESULTS OF SURVEY OF OTHER STATES

EXHIBIT III

Twenty three states responded to our questionnaire. Because some responses indicated more than one choice when answering the questions, totals may exceed 100%.

1. How does your state procure leases?

<u>Negotiated</u>	5 states	<u>Competitive</u>	5 states
<u>Combination</u>	13 states	<u>Other</u>	1 state

Comment:

A majority of states procure leases through a combination of negotiated and competitive process. Obtaining proposals is an important element in the lease process.

2. What is the prime consideration in the awarding of the lease?

<u>Price per square foot</u>	17 states
<u>Filling unoccupied space</u>	2 states
<u>Convenience or location</u>	13 states
<u>Encourage private construction</u>	0 states
<u>Other</u>	9 states

Comment:

In the awarding of the lease, price per square foot and convenience of location are the prime consideration. Client accessibility is also important.

3. Is there a code of ethics prohibiting state officials from leasing space to the state?

Yes 12 states    No 10 states    No Response 1 state

Comment:

Some of those states responding that they have a code of ethics may allow state officials to lease space to the state, but with statutory guidelines. One state answering "no" requires that services provided must be disclosed to the Ethics Commission, and another state specifies that any official offering property to lease cannot participate in the decision making.

4. Does your state have a long range occupancy plan?

Yes 13 states    No 10 states

5. Is the Legislature involved in the approval process for executive branch leases?

Yes 3 states    No 20 states

Comment:

For states that indicated that the legislature is involved in the approval process, it was noted that this would not occur, unless the rent, square footage or length of lease exceeds a prescribed limit.

6. Over the last 3 years, has your state's policy been to build or lease space?

Build- 7 states      Lease 18 states      Both 2 states

Comment:

Reasons for states leasing include short term savings, tax receipts from private facilities, budget constraints.

7. What is your state's normal vacancy rate for both leased and owned buildings?

The normal vacancy rate in the majority of states for both leased and owned buildings is 0%.

8. What percentage of state office space is leased rather than owned?

<u>Percentage leased</u>			
<u>Less than 10%</u>	<u>10%-25%</u>	<u>26%-40%</u>	<u>over 40%</u>
2 states	5 states	7 states	9 states

9. What is the duration of the leasing process?

1 to 3 months	- 8 states
3 to 6 months	- 5 states
6 months to 1 year	- 7 states
over 1 year	- 3 states

Comment:

For states that gave a range for the duration of the leasing projects, the maximum number of months was used.

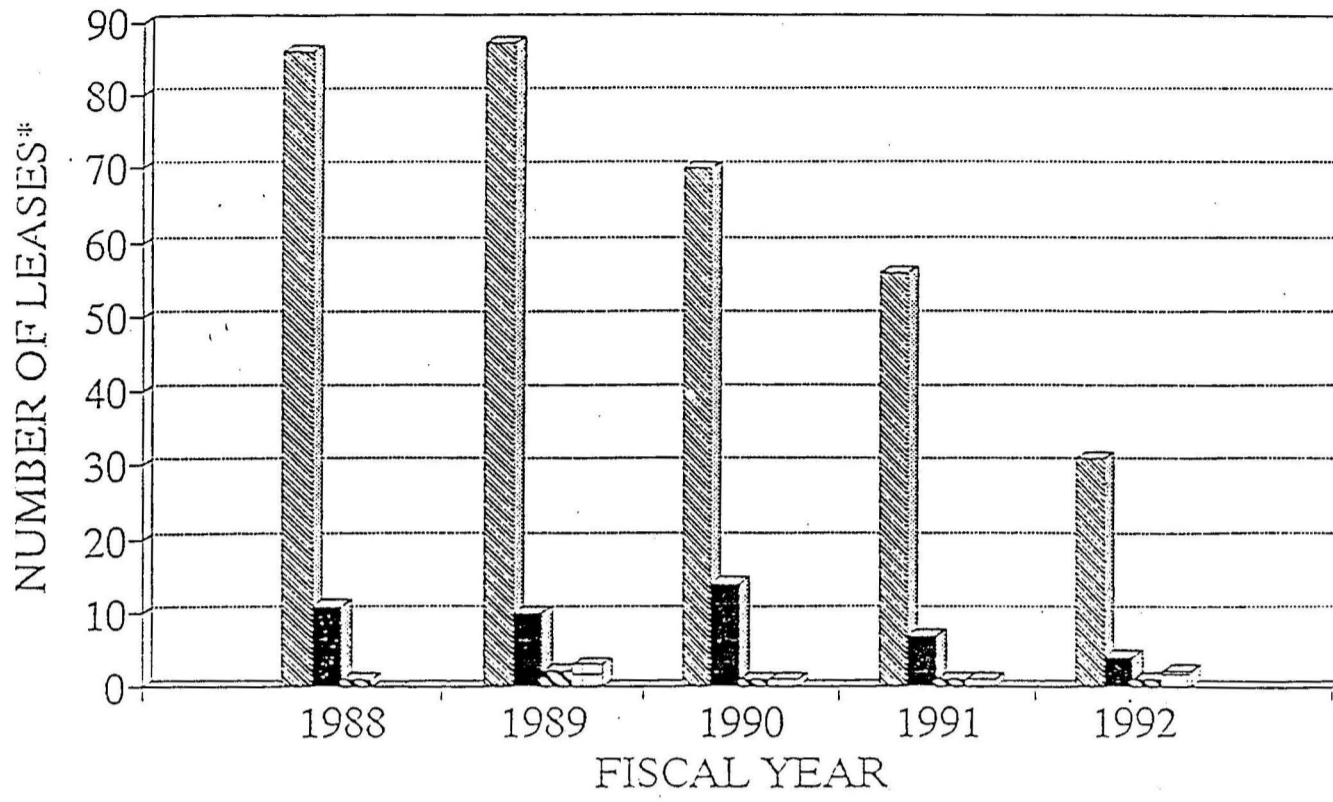
10. What is the average length of the lease term?

<u>Less than 5 years</u>	<u>5 years</u>	<u>Over 5 years</u>
10 states	11 states	2 states

Comment:

The states categorized over 5 years include one state whose lease term varies from 2 to 10 years, and another state with an average of 6 years. Another state indicated for major projects, the average length of the lease term is 20 years. Some states allow option renewals, and one state has a maximum length by law.

ANALYSIS OF LEASE TERMS  
LEASE CONTRACTS BY FISCAL YEAR

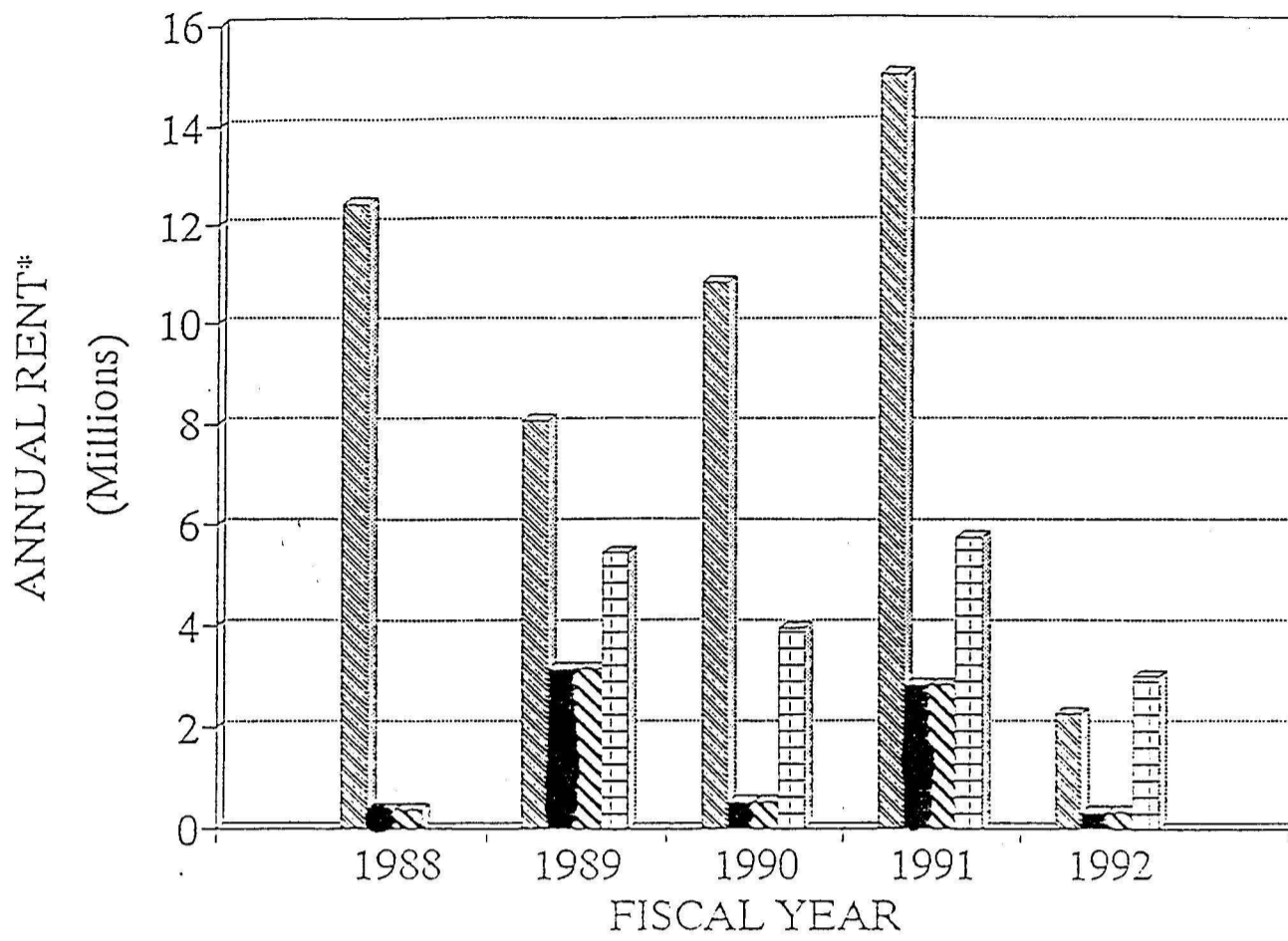


\*analysis based on lease dates per contracts. duration was determined by either the lease expiration date or the automatic payment stop date.

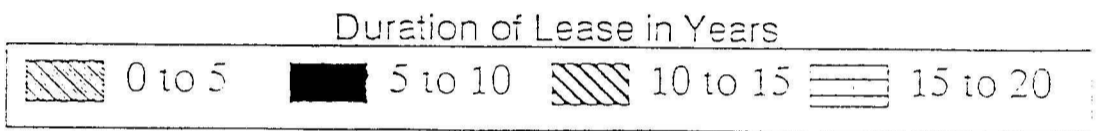
Duration of Lease in Years



ANALYSIS OF LEASE COST  
LEASES CONTRACTED BY FISCAL YEAR



\*amounts are based on the annual rent per lease contracts, and do not include manual payments for such costs as utilities, janitorial, renovations etc.



APPENDIX



DEPARTMENT OF THE TREASURY  
OFFICE OF LEASING OPERATIONS  
CENTRAL RENT ACCOUNT  
SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 1031 Agency: Employment Service, Unemployment Insurance Sq. Ft.: 18,000 Lease date: 10/1/83 Status: Month to Month	Address: 363 Summit Ave. Jersey City, NJ Usage: Office Annual base rent: \$423,000 Expiration: 9/30/85 Renovations: Built to suit
Lease No.: 2107 Agency: Corrections - Parole Sq. Ft.: 4,430 Lease date: 9/1/81 Status: Month to Month	Address: 590 Newark Ave. Jersey City, NJ Usage: Office Annual base rent: \$77,525 Expiration: 8/31/85 Renovations: \$8,682
Lease No.: 2323 Agency: Health - Div. Admin. Agriculture - Div. Marketing Sq. Ft.: 10,000 Lease date: 10/1/89 Status: Contract	Address: 529 Adeline Street Trenton NJ Usage: Storage Annual base rent: \$42,500 Expiration: 9/30/94 Renovations: Built to suit
Lease No.: 2475 Agency: Veterans Program Support Sq. Ft.: 448 Lease date: 8/1/82 Status: Month to Month	Address: 601 Bangs Ave. Asbury Park, NJ Usage: Office Annual base rent: \$6,207 Expiration: 9/30/87 Renovations: Built to suit
Lease No.: 2496 Agency: Employment Service, Unemployment Insurance Sq. Ft.: 10,574 Lease date: 6/1/85 Status: Contract	Address: 57 Park Street Bloomfield, NJ Usage: Office Annual base rent: \$163,897 Expiration: 6/30/95 Renovations: \$1,122,958

SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 2559  
Agency: DEP -  
Air Pollution Control  
Sq. Ft.: 333  
Lease date: 10/1/85  
Status: Contract

Address: 7 Broad Street  
Elizabeth, NJ  
Usage: Air monitoring unit  
Annual base rent: \$3,600  
Expiration: 8/31/92  
Renovations: N/A

Lease No.: 2604  
Agency: DYFS,  
State Museum  
Sq. Ft.: 27,013  
Lease date: 2/1/91  
Status: Contract

Address: 1676 North Olden Ave.  
Ewing, NJ  
Usage: Office/Storage  
Annual base rent: \$291,533  
Expiration: 1/31/98  
Renovations: N/A

Lease No.: 2616  
Agency: Employment Service  
  
Sq. Ft.: 10,000  
Lease date: 2/1/82  
Status: Month to Month

Address: 1002-1004 Broad Street  
Newark, NJ  
Usage: Office  
Annual base rent: \$139,500  
Expiration: 3/31/90  
Renovations: Built to suit

Lease No.: 2845  
Agency: Tax and  
Revenue Administration  
Sq. Ft.: 77,900  
Lease date: 11/1/77  
Status: Contract

Address: 160 So. Broad Street  
Trenton, NJ  
Usage: Office  
Annual base rent: \$266,362  
Expiration: 10/31/92  
Renovations: \$3,448,686

Lease No.: 2861  
Agency: Employment Service,  
Unemployment Insurance  
Sq. Ft.: 9260  
Lease date: 8/1/87  
Status: Month to Month

Address: 3810 New Jersey Ave.  
Wildwood, NJ  
Usage: Office  
Annual base rent: \$138,900  
Expiration: 12/31/90  
Renovations: N/A

Lease No.: 3047  
Agency: State Police,  
Military & Veterans Affairs  
Sq. Ft.: N/A  
Lease date: 7/1/81  
Status: Contract

Address: Mercer County Airport  
Ewing Township, NJ  
Usage: Service Contract  
Annual base rent: \$61,999  
Expiration: 6/30/22  
Renovations: N/A

SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 3173  
Agency: Transportation  
Systems Improvement  
Sq. Ft.: 2,900  
Lease date: 6/1/85  
Status: Month to Month

Address: 125 Main Street  
Netcong, NJ  
Usage: Office  
Annual base rent: \$34,075  
Expiration: 5/31/90  
Renovations: Built to suit

Lease No.: 3207  
Agency: Human Services,  
Education, Treasury  
Sq. Ft.: 117,842  
Lease date: 1/1/80  
Status: Month to Month

Address: 3525-3535 Quakerbridge  
Hamilton, NJ  
Usage: Office  
Annual base rent: \$2,121,156  
Expiration: 12/31/89  
Renovations: \$3,215,206

Lease No.: 3646  
Agency: Motor Vehicles  
  
Sq. Ft.: 2,300  
Lease date: 6/1/84  
Status: Month to Month

Address: 708-720 Arnold Ave.  
Pt. Pleasant, NJ  
Usage: Office  
Annual base rent: \$48,000  
Expiration: 5/31/89  
Renovations: \$17,658

Lease No.: 3766  
Agency: Office of  
Public Defender  
Sq. Ft.: 8,418  
Lease date: 4/1/90  
Status: Contract

Address: 60-62 High Street  
Mount Holly, NJ  
Usage: Office  
Annual base rent: \$73,023  
Expiration: 3/31/95  
Renovations: \$78,045

Lease No.: 3778  
Agency: Treasury  
Audit Agency  
Sq. Ft.: 2,400  
Lease date: 3/1/89  
Status: Month to Month

Address: 3635 Quakerbridge Rd.  
Hamilton, NJ  
Usage: Office  
Annual base rent: \$28,920  
Expiration: 2/28/90  
Renovations: Built to suit

Lease No.: 3809  
Agency: DEPE - Public  
Waste Water Facilities  
Sq. Ft.: 21,000  
Lease date: 7/1/85  
Status: Month to Month

Address: 1333 Brunswick Pike  
Lawrenceville, NJ  
Usage: Office  
Annual base rent: \$299,250  
Expiration: 6/30/90  
Renovations: Built to suit

SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 3831  
Agency: DEP -  
Administrative Operations  
Sq. Ft.: 18,252  
Lease date: 7/1/90  
Status: Contract

Address: 440 East State Street  
Trenton, NJ  
Usage: Office  
Annual base rent: \$271,431  
Expiration: 6/30/95  
Renovations: \$878,840

Lease No.: 3944  
Agency: DEP -  
Bureau of Parks  
Sq. Ft.: 1,000  
Lease date: 8/1/90  
Status: Contract

Address: 1924 Heck Ave.  
Neptune, NJ  
Usage: Storage  
Annual base rent: \$7,320  
Expiration: 7/31/92  
Renovations: N/A

Lease No.: 3977  
Agency: Division of  
Youth & Family Services  
Sq. Ft.: 8,400  
Lease date: 5/1/87  
Status: Contract

Address: 8901 Bergenline Ave.  
North Bergen, NJ  
Usage: Office  
Annual base rent: \$140,280  
Expiration: 4/30/92  
Renovations: Built to suit

Lease No.: 4062  
Agency: Motor Vehicle  
Services  
Sq. Ft.: 30,400  
Lease date: 8/1/88  
Status: Contract

Address: 1578 Rt. 23  
Wayne, NJ  
Usage: Office  
Annual base rent: \$772,160  
Expiration: 7/31/98  
Renovations: \$2,580,483

Lease No.: 4076  
Agency: Agriculture,  
Public Advocate, Commerce  
Sq. Ft.: 60,000  
Lease date: 9/1/89  
Status: Contract

Address: 350 Grand Street  
Trenton, NJ  
Usage: Storage  
Annual base rent: \$230,500  
Expiration: 8/31/94  
Renovations: \$33,747

Lease No.: 4081  
Agency: Division of  
Developmental Disabilities  
Sq. Ft.: 5,725  
Lease date: 5/1/88  
Status: Contract

Address: 76 So. Orange Plaza  
South Orange, NJ  
Usage: Office  
Annual base rent: \$100,187  
Expiration: 4/30/93  
Renovations: \$48,662

SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 4137 Agency: Corrections - Juvenile Community Program Sq. Ft.: 7,672 Lease date: 7/1/88 Status: Contract	Address: Buffalo & Duerer Sts Egg Harbor, NJ Usage: Office Annual base rent: \$110,400 Expiration: 6/30/08 Renovations: N/A
Lease No.: 4157 Agency: DCA - Housing and Urban Renewal Sq. Ft.: 2,050 Lease date: 10/1/89 Status: Contract	Address: 171-173 Main Street Hackensack, NJ Usage: Office Annual base rent: \$36,387 Expiration: 9/30/94 Renovations: Built to suit
Lease No.: 4175 Agency: Office of Hazardous Substance Control Sq. Ft.: 2,000 Lease date: 10/1/89 Status: Contract	Address: 1271 New Market St. South Plainfield, NJ Usage: Storage Annual base rent: \$3,780 Expiration: 9/30/92 Renovations: N/A
Lease No.: 4206 Agency: Consumer Affairs  Sq. Ft.: 2,100 Lease date: 2/1/90 Status: Contract	Address: 375 West State Street Trenton, NJ Usage: Office Annual base rent: \$32,025 Expiration: 1/31/95 Renovations: \$43,000
Lease No.: 4222 Agency: Personnel, Environmental Protection Sq. Ft.: 10,500 Lease date: 7/1/90 Status: Contract	Address: 518 Market Street Camden, NJ Usage: Office Annual base rent: \$136,500 Expiration: 6/30/95 Renovations: \$79,806
Lease No.: 4246 Agency: Division of Youth and Family Services Sq. Ft.: 31,428 Lease date: 2/1/92 Status: Contract	Address: 8-10 Clifton Place Jersey City, NJ Usage: Day Care Center Annual base rent: \$765,900 Expiration: 1/31/12 Renovations: Built to suit

SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 4260 Agency: Casino Control Commission Sq. Ft.: 34,474 Lease date: 6/1/91 Status: Contract	Address: 1300 Atlantic Ave. Atlantic City, NJ Usage: Office Annual base rent: \$672,243 Expiration: 5/31/96 Renovations: \$42,500
Lease No.: 4261 Agency: Bureau of Radiation Protection Sq. Ft.: 2,083 Lease date: 2/1/91 Status: Contract	Address: 50 Yard Avenue Trenton, NJ Usage: Office Annual base rent: \$39,139 Expiration: 1/31/96 Renovations: \$1,523
Lease No.: 4272 Agency: Corrections - Juvenile Med. Security Ctr. Sq. Ft.: N/A Lease date: 8/1/91 Status: Contract	Address: 44 Joni Avenue Hamilton, NJ Usage: Residence Annual base rent: \$18,000 Expiration: 7/31/92 Renovations: N/A
Lease No.: 4275 Agency: Thomas Edison College Sq. Ft.: 27,000 Lease date: Pending Status: Construction	Address: 167 W. Hanover Street Trenton, NJ Usage: Office Annual base rent: \$405,000 Expiration: Pending Renovations: \$1,300,000
Lease No.: 4277 Agency: Tax and Revenue Administration Sq. Ft.: 23,312 Lease date: 1/1/92 Status: Contract	Address: 1600 North Olden Ave. Ewing, NJ Usage: Storage Annual base rent: \$110,732 Expiration: 12/31/96 Renovations: \$44,873
Lease No.: 4279 Agency: Division of Workers Compensation Sq. Ft.: 4,526 Lease date: 1/1/92 Status: Contract	Address: 368 Lakehurst Road Toms River, NJ Usage: Office/Court Annual base rent: \$70,605 Expiration: 12/31/97 Renovations: \$44,000

SCHEDULE OF SAMPLE LEASES

APPENDIX A

Lease No.: 4280  
Agency: Human Services -  
DYFS, DDD, MH&H  
Sq. Ft.: 29,343  
Lease date: Pending  
Status: Contract

Address: 10 Melrose Ave.  
Cherry Hill, NJ  
Usage: Office  
Annual base rent: \$535,509  
Expiration: Pending  
Renovations: Built to suit



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