

Establishment of Market-Based CCSI/CBH Leasing Relationship

Background

CCSI does not hold active leases for any of its' office-based facilities occupied by CBH, with the most recent lease on record being from 2001. CBH does lease the McLaws Circle location, but from a different owner.

Payments from CBH to CCSI are "lease payments" made solely to cover the cost of annual tax, insurance or other routine expenditures. CBH does pay almost all maintenance costs for CCSI-owned buildings. Therefore, there has been no significant growth in CCSI balances for many years.

- These payments are negligible in terms of impact on the CBH operating budget, which is a "positive."
- However, this has contributed to a lack of CCSI funds available to support capital projects related to property acquisition, construction, renovation and/or maintenance.

It is the opinion of staff that CBH needs to enter Fair Market Value-based lease arrangements with CCSI as soon as practicable.

Recommended Strategic Action

It is recommended that CCSI and CBH enter lease arrangements with a target date of January 1, 2026. The leases will serve the following purposes:

1. To more accurately reflect the capital costs associated with building ownership (CCSI) and leasing (CBH), with these costs remaining within our consolidated annual audit report.
 - a. This will provide CBH with needed documentation to support inclusion of capital lease (and therefore debt service) costs in projected future cost-based reimbursement service models (i.e., CCBHC).
2. To limit CBH's future (operating budget) exposure for unexpected building maintenance and repair costs as a protection, providing needed predictability in terms of capital expenditures.
3. To build capital funding balances within CCSI that could provide support for future facility acquisition, renovation and/or expansion.

Actions Taken to Date

Upon request, our attorney has supplied a questionnaire designed to gather information needed to develop commercial leases.

A local commercial real estate firm has conducted an evaluation of our office locations and has provided us with a range of Fair Market Values (for both sale and lease) for each office property. The firm also gathered the necessary information for the attorney to

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complete draft leases. This information has been provided to our attorney for drafting the leases.

Important Considerations

1. These actions have revealed that adopting leases at the assessed Fair Market Value would immediately remove approximately \$500,000 from the CBH operating budget. It is untenable for CBH to undertake this effort in a single budget year. The impact of this change will need to be distributed across several years.
 - a. This can be accomplished through a multi-year lease beginning with payment equaling a reasonably low percentage ($\pm 20\%$?) of Fair Market Value, but with enhanced escalation rates for the duration of the lease.
2. Insurance coverages and stipulations resulting from these changes need to be evaluated before any final actions are endorsed.
3. CCSI may still need to have legal latitude to levy special assessments to CBH early in the lease term. This could be necessary if a very large expenditure is required prior to CCSI resources being sufficiently built.