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**MEMORANDUM**

TO: Legislative Council Members  
FROM: Senator Gary Stevens, Chair  
Legislative Council  
DATE: November 24, 2015  
SUBJECT: Anchorage LIO Office Space Report

At the April 13, 2015 Legislative Council meeting there was general agreement that, in the face of enormous financial problems, the Legislature must reduce its cost of doing business as is being done in all other State agencies and departments. Specifically, the Council voted to direct the Chair to analyze options for legislative office space in Anchorage and report back to the full Council for consideration of the following:

1. Purchasing 716 W. 4th Avenue Building and Land;
2. Request Bonding Costs from Alaska Housing Finance Corporation (AHFC) to purchase 716 W. 4th Avenue; and
3. Evaluate State-Owned Office Space.

This memo and the attached documents comprise my report to Council. In working with the Departments of Revenue and Administration, as well as AHFC, the LAA and I have put together an Anchorage Legislative Offices Cost Comparison (summary attached). Below are five scenarios that compare annual cash outlays over a 10 year period (2016-2025) not including tenant improvement costs:

1. Continue Current Lease 716 W. 4<sup>th</sup> Avenue: \$40,320,000;
2. Purchase 716 W. 4th Ave. funded by AHFC Issuing Fixed-Rate Bonds Plus Operating Costs: \$48,850,000;
3. Purchase 716 W. 4th Ave. Issuance of Variable Rate Certificates of Participation Plus Operating Costs: \$44,614,600;
4. Cash Purchase of 716 W. 4th Ave.: (\$37,950,000 plus operating costs) \$43,200,000; or
5. Move to State-Owned Space at the Atwood Building: \$6,647,760.

Negotiations have been ongoing over the interim between the managing owner of 716 W. 4th Ave., Mark Pfeffer; his attorney Don McClintock with Ashburn & Mason, P.C.; Serena Carlsen, our outside real estate attorney with Stoel Rives, LLP; myself and Council Chair staff Katrina Matheny; as well as, Pam Varni, Executive Director and Doug Gardner, Legal Director of the Legislative Affairs Agency.

I am ready to discuss in detail the five different scenarios with the full Council and any other interested Members.

Attachments

## ANCHORAGE LEGISLATIVE OFFICES COST COMPARISON

### Scenario #1: Continue Current Lease at 716 W. 4<sup>th</sup> Avenue

**Action Required:** The Legislature needs to fully fund the Legislature State Facilities Rent Component every year for the remainder of the original 10 year lease, which expires on May 31, 2024. For comparison purposes, all the scenarios, including this one, are 10 year projections. Costs per square foot are based on usable space of 45,371 sq. ft. We have a total of 86 parking spaces.

Costs to Occupy 716 W. 4th Ave. at Current Lease Terms, Fiscal Years 2016-2025			
Fiscal Year	Lease Amount	Operating Expenses	Total Annual Cost
2016	\$3,379,656	\$652,344	\$4,032,000
2017	\$3,379,656	\$652,344	\$4,032,000
2018	\$3,379,656	\$652,344	\$4,032,000
2019	\$3,379,656	\$652,344	\$4,032,000
2020	\$3,379,656	\$652,344	\$4,032,000
2021	\$3,379,656	\$652,344	\$4,032,000
2022	\$3,379,656	\$652,344	\$4,032,000
2023	\$3,379,656	\$652,344	\$4,032,000
2024	\$3,379,656	\$652,344	\$4,032,000
2025	\$3,379,656	\$652,344	\$4,032,000
<b>Total</b>	<b>\$33,796,560</b>	<b>\$6,523,440</b>	<b>\$40,320,000</b>
Average Annual Cost			<b>\$4,032,000</b>
Total Monthly Costs per Usable Square Foot			<b>\$7.41</b>

Total 10 Year Lease & Operating Expenses	<b>\$40,320,000</b>
Tenant Improvement Costs	<b>\$7,500,000</b>
Total Monthly Costs per Usable Sq. Ft. Including Tenant Improvements	<b>\$8.78</b>



## Scenario #2: Purchase 716 W. 4<sup>th</sup> Avenue Funded by AHFC Issuing Fixed-Rate Bonds

**Action Required:** The Legislature needs to pass a stand-alone bill to enable AHFC to finance the purchase of this building. Among the financing options available to the Legislature when it purchases or constructs facilities is the issuance of debt in the form of bonds sold to investors. Alaska's current credit profile would enable the issuance of bonds with a 10-year maturity at a fixed rate of approximately 2.16 percent. Summing all annual expenditures shows total annual costs of approximately \$4.8 million. This scenario is based on a usable space estimate of 45,371 square feet. A building manager position has been factored in this scenario. The Legislature would own an asset and be responsible for all ongoing maintenance and operating costs of this building. We have a total of 86 parking spaces.

Cost to Purchase 716 W. 4th Ave. by Issuing Bonds: Average Annual Costs, Fiscal Years 2016-2025				
Fiscal Year	Building Purchase	Debt Service Interest	Operating Expenses	Total Annual Cost
<i>Cost of Bond Issuance and Administration</i>				\$850,000
2016	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2017	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2018	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2019	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2020	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2021	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2022	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2023	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2024	\$3,795,000	\$480,000	\$525,000	\$4,800,000
2025	\$3,795,000	\$480,000	\$525,000	\$4,800,000
<b>Total</b>	<b>\$37,950,000</b>	<b>\$4,800,000</b>	<b>\$5,250,000</b>	<b>\$48,850,000</b>
<b>Average Annual Cost</b>				<b>\$4,885,000</b>
<b>Total Monthly Costs per Usable Square Foot</b>				<b>\$8.97</b>

<b>Total to Purchase &amp; Operating Expenses</b>	<b>\$48,850,000</b>
<b>Tenant Improvement Costs</b>	<b>\$7,500,000</b>
<b>Total Monthly Costs per Usable Sq. Ft. Including Tenant Improvements</b>	<b>\$10.35</b>

### Scenario #3: Purchase 716 W. 4<sup>th</sup> Avenue via Issuance of Variable Rate Certificates of Participation

**Action Required:** The Legislature would need to pass a stand-alone bill outlining the project, cost, annual payment and total payments. With variable rate securities, the interest rate paid on bonds is reset periodically for the following week, month, or year. This has the effect of resetting the interest rate every so often on the short (lower interest rate) end of the yield curve. As a result, the Legislature would pay only the short term interest rate rather than the fixed long-term blended rate and will pay a lower rate at the point of issuance. The risk with a variable rate is as interest rates rise, the state's credit quality diminishes, or there is market dislocation that results in the interest rate changing from one year to the next. In this era of historically low interest rates, it appears reasonable to expect increases in rates over the life of the securities; however, attempting to predict the timing or amount of such increases would be purely speculative. As a result, the figures below are shown at a flat interest rate of 0.6 percent (the current variable rate available), and is therefore likely the minimum cost scenario. A building manager position is factored in this scenario. Costs per square foot are based on usable space of 45,371 sq. ft. The Legislature would own an asset and be responsible for all ongoing maintenance and operating costs of this building. We have a total of 86 parking spaces.

<b>Cost to Purchase 716 W. 4th Ave. by Issuing Variable Rate Certificates of Participation: Average Annual Costs over Fiscal Years 2016-2025</b>				
<b>Fiscal Year</b>	<b>Principal</b>	<b>Debt Service Interest</b>	<b>Operating Expenses</b>	<b>Total Annual Cost</b>
<i>Approximate Cost of COP Issuance and Administration</i>				<i>\$265,000</i>
<b>2016</b>	\$3,695,000	\$216,615	\$525,000	\$4,436,615
<b>2017</b>	\$3,715,000	\$194,385	\$525,000	\$4,434,385
<b>2018</b>	\$3,740,000	\$172,020	\$525,000	\$4,437,020
<b>2019</b>	\$3,760,000	\$149,520	\$525,000	\$4,434,520
<b>2020</b>	\$3,785,000	\$126,885	\$525,000	\$4,436,885
<b>2021</b>	\$3,805,000	\$104,115	\$525,000	\$4,434,115
<b>2022</b>	\$3,830,000	\$81,210	\$525,000	\$4,436,210
<b>2023</b>	\$3,850,000	\$58,170	\$525,000	\$4,433,170
<b>2024</b>	\$3,875,000	\$34,995	\$525,000	\$4,434,995
<b>2025</b>	\$3,895,000	\$11,685	\$525,000	\$4,431,685
<b>Total</b>	<b>\$37,950,000</b>	<b>\$1,149,600</b>	<b>\$5,250,000</b>	<b>\$44,614,600</b>
<b>Average Annual Cost</b>				<b>\$4,461,460</b>
<b>Total Monthly Costs per Usable Square Foot</b>				<b>\$8.19</b>

<b>Total to Purchase &amp; Operating Expenses</b>	<b>\$44,614,600</b>
<b>Tenant Improvement Costs</b>	<b>\$7,500,000</b>
<b>Total Monthly Costs per Usable Sq. Ft. Including Tenant Improvements</b>	<b>\$9.57</b>



#### Scenario #4: Purchase 716 W. 4<sup>th</sup> Avenue

**Action Required:** The Legislature would appropriate in the capital budget \$37,950,000 to go toward the purchase price of \$37,000,000 plus the estimated cost of \$950,0000 prepayment penalty of the landlord for his loan of \$28,000,000. The Legislature would own an asset and be responsible for all ongoing maintenance and operating costs of this building. The Legislature would not be reimbursing the landlord for property taxes or insurance once we are owners. A building manager position is factored in this scenario. We have a total of 86 parking spaces.

<b>Cost to Purchase 716 W. 4th Ave. through Single Appropriation with Occupancy Costs, Fiscal Years 2016-2025</b>			
<b>Fiscal Year</b>	<b>Building Purchase</b>	<b>Operating Expenses</b>	<b>Total Annual Cost</b>
<b>2016</b>	\$37,950,000	\$525,000	\$38,475,000
<b>2017</b>		\$525,000	\$525,000
<b>2018</b>		\$525,000	\$525,000
<b>2019</b>		\$525,000	\$525,000
<b>2020</b>		\$525,000	\$525,000
<b>2021</b>		\$525,000	\$525,000
<b>2022</b>		\$525,000	\$525,000
<b>2023</b>		\$525,000	\$525,000
<b>2024</b>		\$525,000	\$525,000
<b>2025</b>		\$525,000	\$525,000
<b>Total</b>	<b>\$37,950,000</b>	<b>\$5,250,000</b>	<b>\$43,200,000</b>
<b>Average Annual Cost</b>			<b>\$4,320,000</b>
<b>Total Monthly Costs per Usable Square Foot</b>			<b>\$7.93</b>

<b>Total To Purchase &amp; Operating Expenses</b>	<b>\$43,200,000</b>
<b>Tenant Improvement Costs</b>	<b>\$7,500,000</b>
<b>Total Monthly Costs per Usable Sq. Ft. Including Tenant Improvements</b>	<b>\$9.31</b>

## SCENARIO #5: Move to State-Owned Space at the Atwood Building

**Action Required:** Non appropriation of the lease with 716 W. 4<sup>th</sup> Avenue and enter into a State lease with the Department of Administration for the Atwood Building. Of the total of 838 parking spots available in the Linny Pacillo parking facility, we would be paying for 84 parking spots based on our square footage. There are also 80 underground parking spots reserved for Legislators on a first come, first served basis at the Atwood Building. There are an additional 266 spots available on a first come, first served basis located in Blocks 102 and 79. Figures are based on per sq. ft., per month, costs of \$1.5375 for office space and of \$0.3091 for parking, as quoted by Tanci Mintz, State Leasing and Facilities Manager. At 716 W. 4<sup>th</sup> Avenue we previously had 811 sq. ft. of basement space. After the remodel there is 10,080 gross sq. ft. and 8,048 usable sq. ft. of basement space that we are not utilizing. We will not have basement space at the Atwood Building. We also have extra offices at 716 W. 4<sup>th</sup> that we are not using and will not have at the Atwood.

Prospective Lease of Office Space in the Atwood Building, Fiscal Years 2016-2025			
Fiscal Year	Office Lease 30,000 sq. ft. usable space	Parking 84 parking spaces	Total
2016	\$553,500	\$111,276	\$664,776
2017	\$553,500	\$111,276	\$664,776
2018	\$553,500	\$111,276	\$664,776
2019	\$553,500	\$111,276	\$664,776
2020	\$553,500	\$111,276	\$664,776
2021	\$553,500	\$111,276	\$664,776
2022	\$553,500	\$111,276	\$664,776
2023	\$553,500	\$111,276	\$664,776
2024	\$553,500	\$111,276	\$664,776
2025	\$553,500	\$111,276	\$664,776
<b>Total</b>	<b>\$5,535,000</b>	<b>\$1,112,760</b>	<b>\$6,647,760</b>
Average Annual Cost			<b>\$664,776</b>
Total Monthly Costs per Usable Square Foot			<b>\$1.85</b>

Total 10 Year Lease & Operating Expenses	<b>\$6,647,760</b>
Tenant Improvement Costs For Atwood Building	<b>\$3,500,000</b>
Tenant Improvements Lost From 716 W. 4 <sup>th</sup> Avenue	<b>\$7,500,000</b>
Total Monthly Costs per Usable Sq. Ft. Plus Operating Costs	<b>\$4.90</b>