



Financial Analysis of Office Space for the Alaska State Legislature

Prepared for:

The Alaska Legislative Council

March 14, 2016

Prepared by:

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March 14, 2016

Senator Gary Stevens,
Chair, Legislative Council
State of Alaska,
Alaska Legislative Council,
120 4th Street,
State Capitol, Room 3,
Juneau, AK 99801-1182
Via e-mail: Sen.Gary.Stevens@akleg.gov

RE: Financial Analysis of Office Space for the Alaska State Legislature

Dear Senator Stevens:

Pursuant to the professional services contract between the Alaska Legislative Council ("Council") and Navigant Consulting, Inc. ("Navigant"), dated February 22, 2016, the enclosed report provides an independent financial analysis of alternative office space solutions for the Anchorage offices of the Alaska State Legislature. As stipulated in our engagement letter, this report is prepared for the sole use of the Council in relation to the above matter, and not for any other purpose without our written approval.

Thank you for providing the opportunity for Navigant to support the Council on this important matter. Please let me know if I can provide further assistance.

Sincerely,

Nigel Hughes
Director

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Section I Introduction

This report provides an independent financial analysis of alternative office space solutions currently being considered for the Anchorage offices of the Alaska State Legislature (the “Legislature”).

The report was prepared for the Alaska Legislative Council. The Council requested a financial evaluation of three alternative scenarios available to the State for the provision of space for the Legislature in Anchorage:

Scenario 1: Continue in the existing lease at the Legislative Office Building at 716 W 4th Avenue

Scenario 2: Purchase the Legislative Office Building

Scenario 3: Relocate to the Atwood Building at 550 W 7th Avenue

The report is organized in the following sections:

Section II provides a brief background and context

Section III discusses the approach used to conduct the analysis

Section IV presents our findings and recommendations

Section V provides a summary of the assumptions used in each scenario

Section VI presents descriptive exhibits for each scenario's financial model and supporting documentation

Section II Background

The Legislature is the legislative branch of the Alaska State government (“State”) and is responsible for the enacting of State laws and the appropriation of the funds necessary to operate the government. The Legislature comprises 40 members in the House of Representatives and 20 members in the Senate.

Currently, office space for the members of the Legislature and their staff is provided in leased premises at 716 W 4th Street in Anchorage (the “Legislative Office Building”, or “LOB”). This property was expanded and renovated in 2012-2014 and has a gross building area of approximately 60,000 square feet over 8 levels, as follows:

- The first floor contains the Legislative Information Office (“LIO”), auditorium and viewing room, conference space and storage/ancillary spaces.
- The second through sixth floors contain individual office suites for senators and representatives. Each level contains between 10-12 office suites and 1-2 conference rooms, and is provisioned with building amenities such as restrooms, kitchen area and janitor closet.
- The basement level includes storage space, utility rooms and other ancillary space.
- The rooftop penthouse area contains a mechanical room and telecommunications tower.
- Dedicated parking is provided in an adjacent two-level parking garage. The lower level is dedicated to the LOB. The upper level, at-grade, is used by the LOB during business hours and made available to the public during the evening weekday hours and full time Saturdays and Sundays.

The LOB is occupied under a lease agreement between 716 West Fourth Avenue LLC, as Lessor and the Legislative Affairs Agency (“LAA”) as Lessee. The original lease was entered into April 6, 2004, and was then extended September 19, 2013 for an additional 10 year term, expiring May 23, 2024, with an option to extend for up to an additional 10 years. The terms of the lease amendment, prior to the renovation and expansion, identified the area of the leased premises at 22,834 Sq.ft, with a base monthly rent of \$56,836.05. Upon completion of the renovations, the building area was defined in the lease as up to approximately 64,000 gross Sq.ft, and the base monthly rent was set at \$281,638 per month.¹

The renovation involved construction costs of approximately \$30 Million, of which amount the State contributed \$7.5 Million in tenant improvements.²

This report presents a financial analysis of the current LOB lease in comparison to alternative arrangements, specifically the State’s purchase of the LOB and the relocation of the legislative offices to the State owned Atwood Building.

¹ See “Extension of Lease and Lease Amendment No.3”

² See “Evaluation of Cost Estimate for Downtown Development”, Bratslavsky Consulting Engineers, October 10, 2013.

Section III Approach

Analysis Methodology

The analysis in this report is based on a conventional approach to real estate financial analysis, as used by private and public entities to evaluate the lease and purchase of real estate. Specifically, it employs a discounted cash flow methodology, under which the periodic net cash flows associated with each scenario are discounted to arrive at a present value.

Each scenario produces a different combination of one-off capital budget investments and ongoing annual expenditures that will require State funding. The act of discounting these cash flows allows the differences in both dollar values and timing to be compared on an equivalent basis, and takes into consideration the time value of money, in that a dollar received today is worth more than a dollar received in the future.

Opportunity Cost

The costs for Scenarios 1 and 2 are relatively straightforward to compare. Many of the required values, such as the lease payments, the purchase price and the operating costs are known. Others, such as growth rates in operating costs, bond financing rates and the growth in value of the building, can be estimated within a tight range.

The costs associated with Scenario 3 are more complex to analyze on a basis that is comparable to Scenarios 1 and 2. The operating expenses for the Atwood Building and Linny Pacillo parking garage (“LPPG”) are known and can be apportioned to the space that would be occupied by the Legislature. However, a fully comparable analysis should consider the full costs and benefits of ownership of these existing buildings, which cannot be directly measured. The Atwood Building and LPPG were purchased several years ago; debt service ends in 2017 for the Atwood Building and 2036 for the LPPG. Occupancy costs associated with these buildings are charged to the tenant agencies based on their pro-rata share of usable floor space. Vacant space is charged to the Department of Administration’s general fund.

To address this issue, our analysis of Scenario 3 adopts an opportunity cost approach. This approach recognizes that from a whole government point of view the costs of the Atwood Building and LPPG exist and will continue whether or not the Legislature or some other agency occupies the space that is available at the Atwood Building. Therefore the opportunity cost of the Legislature occupying the Atwood Building space can be measured as the cost savings that could be achieved in an alternative situation, where a different agency that currently leases space and pays rent relocates to the Atwood building instead of the Legislature, and thus achieves cost savings through ending its rent payments. By relocating to the Atwood Building, the Legislature prevents the other agency from the opportunity to achieve these rent savings.

Several executive agencies currently lease space from private landlords in the Anchorage market, with monthly rent rates that generally range between \$1.50 and \$3.30 per square foot.³ Rather than attempt to identify which of these leases would be an alternative occupant

³ See “Exec Branch Leases for Anchorage”

for the Atwood Building, for the purposes of this analysis we use the current Anchorage average office rent to measure the opportunity cost.⁴

Size Differential

A further complication in this analysis is the size differential between the space available in the LOB and the space required at the Atwood Building. The LAA has indicated that the amount of space required at the Atwood Building is less than the amount of space existing at the LOB, and that the State is currently paying rent for ancillary rooms and storage space that is not needed.

Consequently, the amount of usable floor space requested at the Atwood Building is based on the measured amount of Office Area currently provided in the LOB. This area includes the office spaces, LIO, conference rooms and auditorium, and according to measurements provided by RIM Architects, amounts to 34,102 Sq.ft.⁵

In order to address this issue, our analysis also presents costs on a “per usable square foot” basis, which recognizes that the costs associated with the Atwood Building are reflective of a smaller amount of space provided in that scenario.⁶ For this analysis, the floor area measure we adopt for the LOB is based on the RIM Architects’ measurement of 42,014 Sq.ft of Floor Usable Area. (See Exhibit 7).

⁴ See Costar market rent data, Exhibit 9. Costar data is based on rentable area rather than usable area; therefore a rentable to usable space adjustment factor of 1.10 is applied to adjust the market rent to usable rent per square foot.

⁵ See RIM Architects: “BOMA Floor Area Calculations for 716 W 4th Avenue”, updated March 11, 2016. Note that the DGS calculated office space to be 30,549 Sq.ft based on the areas indicated on the individual floor plans. The plans indicate that such numbers are for convenience only and do not correspond to actual net areas. The analysis in this report is based on the BOMA table, which identifies 34,102 Sq.ft of office space. (See Exhibit 7).

⁶ The notion of “usable area” is somewhat subjective and difficult to compare between different types of buildings, such as in this case, where the LOB is a single tenant building and has exclusive use of common areas as well as the office suites. By contrast, in the Atwood Building, the Legislature will also have access to common areas, but on a shared rather than exclusive basis.

Section IV Findings and Recommendations

Analysis Results

Table 1 presents the total and average annual cost of each option over 20 years, on a discounted present value basis.⁷

- Scenario 1 is the most costly option, reflecting lease payments and operating costs under the existing lease that have a present value of \$61.8 Million in total, or an average of \$3.09 Million per year.
- Scenario 2 results in total costs with a present value of \$31.7 Million if the State purchases the LOB, which is a savings of approximately \$30 Million, or 50 percent, over the current lease. On an average annual basis the present value is \$1.58 Million
- The present value of total costs for Scenario 3 is \$24.2 Million, or an average annual present value of \$1.21 Million, if the State relocates to the Atwood Building. This is a savings of approximately \$37.7 Million, or 60 percent, over the existing lease.

Thus, Scenarios 2 and 3 each represent substantial savings over the existing lease arrangement. Scenario 3 is the least costly option, being \$7.5 Million less expensive than Scenario 2.

When assessed on a “per usable square foot” basis, Scenario 3 is also the least-cost option, at \$2.95 per Sq.ft. However, Scenario 2, at \$3.08 per Sq.ft, is only 4 percent more expensive than Scenario 3. Therefore, the majority of the cost difference between Scenarios 2 and 3 is attributable to the difference in the amount of usable space provided at each building. If the Council determines that the additional usable space at the LOB is not required, then Scenario 3 is clearly the least-cost option. If the Council does value the additional usable space at the LOB, the cost difference between Scenarios 2 and 3 is of less significance, and the Council’s decision should have greater regard to the merits, risks and other considerations of each option, some of which are briefly discussed below.

Table 1

	Scenario 1: Continue to Lease LOB	Scenario 2: Purchase LOB	Scenario 3: Relocate to Atwood Building
Usable Square Feet	42,914	42,914	34,102
Present Value of Costs over 20 Years	\$61.8 Million	\$31.7 Million	\$24.2 Million
Present Value of Costs: Average Annual	\$3.09 Million	\$1.58 Million	\$1.21 Million
Present Value per Usable Sq.ft per Month	\$6.00 per Sq.ft	\$3.08 per Sq.ft	\$2.95 per Sq.ft

⁷ See Exhibits 1-6 for detailed annual cash flow analyses and assumptions

Other Considerations

While the above analysis finds that Scenario 3 is the lowest cost alternative on both a total dollar present value and an equivalent per usable square foot basis, there are further considerations, that are beyond the scope of this report, but are noted here for consideration by the Council in making its decision.

First, the LOB has physical benefits in that it was built to suit the needs of the Legislature and is a single tenant building, providing the Legislature with exclusive use of the lobby and other common areas. While these spaces may be under-used currently, ownership of the building would give the State control over the space and the ability to make better use of some of the ancillary and storage space.

Second, Scenario 3 requires the non-appropriation of funds and the termination of the LOB lease. The Council will need to consider the wider financial and legal implications of these actions, which may include litigation by the Lessor and degraded relationships between the State and the business community.⁸

Third, Scenario 3 would entail physical disruption and inconvenience of moving from the LOB to the Atwood Building, as well as the risk that the financial costs assumed with moving, leasing temporary space and tenant improvements may increase due to unforeseen circumstances.

Fourth, Scenario 2 requires the securing of financing for the purchase of the LOB. In the present fiscal circumstances, the Council should seek to confirm at regular intervals the availability of tax-exempt financing at the rates assumed in our analysis, which are based on an existing “offer to sell” of \$37 Million.

⁸ See, for example, letter from Alaska Bankers Association to the Budget Conference Committee, “Support for maintaining the State of Alaska’s good credit”, April 8, 2015.

Section V Assumptions used in the Analysis

Each scenario is based on monthly cash flows, modeled over a period of 20 years. This timeline aligns both with the LOB lease (10 years with an option to extend an additional 10 years), and an appropriate time period for bond financing. A 3.2 percent discount rate is used to convert the periodic cash flows to a present value.⁹

The specific assumptions for each scenario are detailed below.

Scenario 1: Continue to lease the Legislative Office Building

Description

The Legislature currently occupies the LOB under an Extension of Lease and Lease Amendment, dated September 9, 2013. Under this agreement, the existing lease, which expired May 31, 2014, was extended for 10 years to May 31, 2024. The lease extension agreement contained an option to extend the lease for an additional period of up to 10 years.

The lease is described in the lease amendment as a “modified triple net lease”, under which the responsibility for the LOB’s operational costs are shared between the Lessor and Lessee as defined by the lease. In short, the Lessee has responsibility for the majority of the routine operations and maintenance costs, while the Lessor has responsibility for costs associated with the building systems, fittings, fixtures and structure.

Costs

The lease stipulated that upon occupancy of the renovated building, monthly net rent payments would be set at \$281,638. This amount would be a flat rate that would remain the same throughout the term of the lease. Extension of the lease in 2024 is subject to AS 36.30.083, which requires the rent to be at least 10 percent below the market rental value at the time of the extension. It is not possible to determine today what that rate will be, therefore our assumption is a continuation of the in-place rent throughout the extension period.

Lessee operating expense is based on the actual operating expense for calendar year 2015, and is subject to annual escalation estimated at 3 percent.

Income for car parking is estimated at \$700 per stall per year, for 47 stalls, with annual escalation at 2.4 percent, in line with historic market rent growth.

Scenario 1 model assumptions are detailed in Exhibit 1 and annual cash flows in Exhibit 2.

⁹ The discount rate is based on the 20-year nominal Treasury bond rate. (See OMB Circular A-94 Appendix C, November 2015 Revision)

Scenario 2: Purchase the Legislative Office Building

Description

In October 2015 the Lessor offered to sell the LOB to the State for \$37,000,000. Further, in January 2016 the Lessor offered to reduce the monthly rent by five percent up until the time at which the purchase would close. These offers were subject to achieving approval and entering escrow by certain dates, which have now passed.¹⁰ However, the Lessor has indicated that the same terms are available should this course of action be chosen.¹¹

Costs

Closing of the purchase is assumed to occur in April 2017. From the current date until that point, lease payments are reduced by five percent and operating expenses are incurred consistent with Scenario 1.

The State has a number of options to finance the LOB purchase. These include an appropriation of the full purchase price or financing with tax-exempt bonds or certificates of participation. Bond financing can be arranged through State agencies such as AHFC or AIDEA, or through the State Bond Committee.¹² Discussions with officers at these agencies indicate tax exempt bond financing as an appropriate financing method for this purchase. Our analysis employs tax exempt bond financing rates provided by AHFC as of March 7, 2016, which were 3.10 percent for 20 years.¹³ The amount to be financed includes the purchase price of \$37,000,000, the bond cost of issuance (\$760,000) and administration fee (\$190,000).

As owner, the State would pay the LOB's annual operating expenses. This amount includes the operating expenses currently paid by the State as Lessee, plus the operating, repair and maintenance expenses that are currently the Lessor's responsibility under the lease. Excluded from this amount are property taxes and insurance. Thus, total operating expense for 2015 is estimated at approximately \$483,000 (See Exhibit 8). The State would receive income from the rooftop telecommunications tower and the public car parking. Operating income and expenses are assumed to escalate by 3 percent per annum.

The cash flow analysis also includes an estimate of reversionary value at the end of the 20-year period. This value represents the market value of the building owned by the State. This value is based on the appraised value of the LOB without the benefit of the existing lease (See, Appraisal Report, Legislative Affairs Building, Kidder Mathews, July 8, 2015), escalated by the estimated future annual rate of growth in market rent, which is based on average rent growth in the Anchorage office market between 2010 and 2015.¹⁴

Scenario 2 model assumptions are detailed in Exhibit 3 and annual cash flows in Exhibit 4.

¹⁰ See 716 W Fourth Avenue LLC Proposal, January 29, 2016

¹¹ The Lessor has also indicated that the \$980,000 prepayment penalty associated with the existing building loan would be waived by the lender.

¹² I also understand that the City of Anchorage has indicated interest in financing the purchase of the building.

¹³ See AHFC LIO Building Lease Purchase Bond Debt Service and email regarding 20-year bond rate.

¹⁴ See CoStar market data, Exhibit 9.

Scenario 3: Relocate to the Atwood Building

Description

In Scenario 3, the Legislature would relocate from the LOB to the Atwood office building (the “Atwood Building”). This is a 20-level office building located at the intersection of W 7th Avenue and F Street. The Atwood Building currently houses several State government departments, including Natural Resources, Administration, Revenue, Community & Economic Development and the Governor’s Office.

Parking for occupants of the Atwood Building is provided in the adjacent State-owned Linny Pacillo parking garage. Parking for executives is provided in a smaller parking garage under the Atwood Building. In addition, the State also owns other nearby surface parking lots.

Currently, the Atwood Building has approximately 26,600 Sq.ft of vacant space, including the whole of level 2 and parts of levels 1 and 19. It is intended that the Department of Natural Resources (“DNR”) will consolidate its space in the building over the next 12 months to provide an additional vacant level for potential use by the Legislature.

Our analysis assumes that following the DNR consolidation, tenant improvements would be completed for the Legislature, with occupancy commencing January 1, 2018. The LAA has indicated that the Legislature would move to temporary office space until the Atwood Building is ready.

Costs

The Atwood Building is part of the Public Building Fund administered by the Alaska Division of General Services (“DGS”). As such, the DGS requires agencies that occupy the building to pay an annual amount that comprises a pro-rata share (based on usable square feet) of (i) building maintenance and operations cost, (ii) estimated annual depreciation (to cover future capital improvements), and (iii) indirect facilities administration costs. For FY 2016, these costs amount to \$1.5355 per Sq.ft per month. The costs of the LPPG are similarly charged, with the pro-rata amounts based on the share of space occupied by each department in the Atwood Building. For FY 2016, LPPG costs total \$0.3099 per Sq.ft. Thus the combined cost for office and parking space would be \$1.84 per Sq.ft per month.

As discussed in Section III, the cost analysis for Scenario 3 also includes the opportunity cost of the Legislature taking space at the Atwood Building that could otherwise be occupied by another agency that currently occupies leased space and pays rent.

If the Legislature did not move to the vacant space at the Atwood Building, another State agency that is currently leasing space could relocate there instead. The other agency, in switching from a market rent to the DGS cost-based charge, would realize savings (i.e., $\$2.43 - \$1.84 = \$0.59$). In Scenario 3, we include \$0.59 per Sq.ft per month as the opportunity cost of the Legislature taking the space instead of another agency.

Other costs in Scenario 3 include the cost of temporary office space until the Atwood Building is ready, for which we have assumed 34,000 Sq.ft at a full service rent of \$1.84 per Sq.ft. This rent is based on quoted rates for 733 W 4th Avenue. If 34,000 Sq.ft is not available in this building, we have assumed that additional space in a similar building would be leased at an equivalent cost. Costs of moving, first from the LOB to the temporary space and then from the temporary space to the Atwood Building, are assumed at \$100,000 in

total. The costs of tenant improvements at the Atwood Building are assumed to be \$3,500,000, which is a sufficient amount to provide a good quality standard of fit-out, and is consistent with that currently provided at the LOB.

Inherent in relocation to the Atwood building is the non-appropriation and termination of the LOB lease. No costs or delays that may arise as a result of these actions are included in this Scenario.

Scenario 3 model assumptions are detailed in Exhibit 5 and annual cash flows in Exhibit 6.

Section VI Exhibits

Alaska Legislative Council
Scenario 1 Assumption Inputs
Exhibit 1

Assumptions		Source	Notes
Analysis Start Date	4/1/2016		
Term Period (months)	240		Aligns with financing term of acquisition and existing lease with extension
Lease Expiration Date	Mar-36		20 years from start of analysis
Lease/Opex Commencement	4/1/2016		Start of analysis
Discount Rate	3.20%	OMB Circular A-94 Appendix C Costar	Government discount rate for cost-effectiveness and lease purchase
Market Rent Escalation	2.26%		Annual Average % change between 2010 - 2015
Market Car Park/Stall/Year	\$ 700		
716 W. 4th Ave			
Usable sq.ft.	42,914	BOMA	Usable Area
Total Parking Spaces	86	9/9/2013 Lease Extension	Total parking available
Revenue Generating Parking Spaces	47	9/9/2013 Lease Extension	On-grade parking spaces (Parking Contract)
Year 1: Rental Rate/sq.ft./month	\$ 6.56	9/9/2013 Lease Extension	Escalated price
Rental Rate Escalation	0%	9/9/2013 Lease Extension	Included in lease price (assumes no further escalation on extension)
Year 1: Leasing Opex	\$ 634,339	2015 actual Opex	\$634,338 for ALIO 2015 calendar year

**Alaska Legislative Council
Scenario 1 Annual Cash Flow Analysis
Exhibit 2**

[illegible]

Alaska Legislative Council
Scenario 2 Assumption Inputs
Exhibit 3

Assumptions		Source	Notes
Analysis Start Date	4/1/2016		
Term Period (months)	240		Aligns with financing term of acquisition
Lease Expiration Date	Mar-36		20 years from start of analysis
Purchase Delay (months)	12		12 months from start of analysis
Lease/Opex Commencement	4/1/2016		Start of analysis
Purchase Price	\$ 37,000,000	716 W Fourth Avenue LLC Proposal 1.29.16	Purchase price excludes \$950,000 pre-payment penalty
Appraisal Price	\$ 20,000,000	Kidder Mathews, July 8, 2015	
Reversion Price	\$ 31,271,288	Kidder Mathews, July 8, 2015 & Costar	Appraisal price escalated at 2.26% (market growth)
Discount Rate	3.20%	OMB Circular A-94 Appendix C	Government discount rate for cost-effectiveness and lease purchase
Market Rent Escalation	2.26%	Costar	Annual Average % change between 2010 - 2015
Market Car Park/Stall/Year	\$ 700		
716 W. 4th Ave			
Usable sq.ft.	42,914	BOMA	Usable Area
Total Parking Spaces	86	9/9/2013 Lease Extension	Total parking available
Revenue Generating Parking Spaces	47	9/9/2013 Lease Extension	On-grade parking spaces (Parking Contract)
Year 1: Rental Rate/sq.ft./month	\$ 6.56	9/9/2013 Lease Extension	Escalated price
Year 1: Roof Lease/Annum	\$ 25,000	LL 2015 Budget	Existing Verizon lease
Rental Rate Escalation	0%	2014 Lease Extension	Included in lease price (assumes no further escalation on extension)
Year 1: Renting Opex	\$ 634,339	2015 actual Opex	\$634,338 for ALIO 2015 calendar year
Year 1: Owned Opex	\$ 482,877	2015 actual, LL budget	2015 actual opex less property tax and insurance, plus LL costs
Opex Escalation	3%		
Lease Discount if Purchased	5%	13. 716 W Fourth Avenue LLC Proposal 1.29.16	Option period has expired, but landlord stated reduction still viable
Financing			
Bond Maturity (months)	228	FW LIO Building Lease Bond Debt Service	Analysis term less initial lease period (Amortized over 19 years)
Bond Fixed Rate	3.10%	FW LIO Building Lease Bond Debt Service	Rate on 20-year term
Bond Cost of Issuance and Admin	\$ 950,000		\$760,000 cost of issuance and \$190,000 administration fee

Alaska Legislative Council
Scenario 2 Annual Cash Flow Analysis
Exhibit 4

		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
	Total								
Acquisition/Disposition									
Purchase Price	\$	(37,000,000)	\$ -	\$ (37,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Capitalized Sale		31,271,288	-	-	-	-	-	-	-
Net Sales Proceeds/(Costs)	\$	(5,728,712)	\$ -	\$ (37,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -
Lease and Operating Costs									
Lease Expense	\$	(3,210,675)	\$ (2,408,006)	\$ (802,669)	\$ -	\$ -	\$ -	\$ -	\$ -
Car Parking & Roof Lease Revenue	\$	1,300,045	\$ 24,675	\$ 52,394	\$ 59,404	\$ 60,181	\$ 60,977	\$ 61,790	\$ 62,621
Operating Expenses		(13,220,249)	(475,754)	(531,607)	(512,285)	(527,653)	(543,483)	(559,787)	(576,581)
Tenant Improvements/Relocation		-	-	-	-	-	-	-	-
Net Leasing Expenses	\$	(15,130,879)	\$ (2,859,085)	\$ (1,281,883)	\$ (452,881)	\$ (467,472)	\$ (482,506)	\$ (497,998)	\$ (513,960)
Financing									
<u>Bond Financing</u>									
Distribution	\$	37,950,000	\$ -	\$ 37,950,000	\$ -	\$ -	\$ -	\$ -	\$ -
Principal Repayment		(37,950,000)	-	(1,113,251)	(1,525,121)	(1,573,077)	(1,622,542)	(1,673,561)	(1,726,185)
Debt Service Interest		(12,314,728)	-	(870,883)	(1,120,391)	(1,072,435)	(1,022,970)	(971,951)	(919,327)
Cost of Issuance		(950,000)	-	(950,000)	-	-	-	-	-
Net Financing Cash Flows	\$	(13,264,728)	\$ -	\$ 35,015,866	\$ (2,645,512)	\$ (2,645,512)	\$ (2,645,512)	\$ (2,645,512)	\$ (2,645,512)
Net Cash Flows	\$	(34,124,320)	\$ (2,859,085)	\$ (3,266,017)	\$ (3,098,393)	\$ (3,112,984)	\$ (3,128,018)	\$ (3,143,510)	\$ (3,159,472)
Average Annual Cost	\$	(1,706,216)							
Average Monthly Outlay/sq.ft.	\$	(3.31)							
NPV @ 5%	\$	(31,698,816)							
Average Annual NPV	\$	(1,584,941)							
Average Monthly NPV/sq.ft.	\$	(3.08)							

**Alaska Legislative Council
Scenario 2 Annual Cash Flow Analysis
Exhibit 4**

[illegible]

Alaska Legislative Council
Scenario 3 Assumption Inputs
Exhibit 5

Assumptions		Source	Notes
Analysis Start Date	4/1/2016		
Term Period (months)	240		Aligns with financing term of acquisition
Lease Expiration Date	Mar-36		20 years from start of analysis
Lease/Opex Commencement	4/1/2016		Start of analysis
Discount Rate	3.20%	OMB Circular A-94 Appendix C	Government discount rate for cost-effectiveness and lease purchase
Market Rent	\$2.43	Costar	2015 Average Anchorage Office Rental Rate (Gross) per sq.ft./month
Market Rent Escalation	2.26%	Costar	Annual Average % change between 2010 - 2015
Office Area Load Factor	1.10		Usable area adjusted for common area and amenity (ranges 8% - 15%)
Atwood Building			
Usable sq.ft.	34,102		Net Usable Area
Parking Spaces	84		Prorata spaces based on 45,371 sq.ft.
Year 1: Rental Rate/sq.ft./month	\$ 1.8475	FY16 PBF Rate by Building	2016 Prorata Expense (\$1.5375 office and \$0.3091 parking)
Rental/Opex Rate Escalation	3%		
TI & Relocation Costs	\$ 3,500,000		
TI Months	21		Email from Tanci Mintz to Pamela Varni, dated December 16, 2015
733 W 4th Ave (temporary space)			
Usable sq.ft.	34,102	Wiley Brooks	14,555 sq.ft. at 733 W. 4th Ave, need to source additional 19,547 sq.ft.
Year 1: Rental Rate/sq.ft./month	\$ 1.84	Wiley Brooks	Blended gross asking rent at 733 W. 4th Ave.
Rental Rate Escalation	0%		Not applicable: Assumed 1 year occupation
Year 1: Renting Opex	\$ -		Not applicable: Assumed Gross Lease
TI & Relocation Costs	\$ 100,000		Nominal moving costs to adjacent building

Alaska Legislative Council
Scenario 3 Annual Cash Flow Analysis
Exhibit 6

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Acquisition/Disposition													
Purchase Price	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capitalized Sale	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Sales Proceeds/(Costs)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lease and Operating Costs													
Lease and Car Park Expense	\$ (957,731)	\$ (986,462)	\$ (1,016,056)	\$ (1,046,538)	\$ (1,077,934)	\$ (1,110,272)	\$ (1,143,580)	\$ (1,177,888)	\$ (1,213,224)	\$ (1,249,621)	\$ (1,287,110)	\$ (1,325,723)	\$ (341,374)
Car Parking Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Tenant Improvements/Relocation	-	-	-	-	-	-	-	-	-	-	-	-	-
Opportunity Cost	(426,389)	(439,180)	(452,356)	(465,927)	(479,904)	(494,301)	(509,131)	(524,404)	(540,137)	(556,341)	(573,031)	(590,222)	(151,982)
Net Leasing Expenses	\$ (1,384,119)	\$ (1,425,643)	\$ (1,468,412)	\$ (1,512,465)	\$ (1,557,839)	\$ (1,604,574)	\$ (1,652,711)	\$ (1,702,292)	\$ (1,753,361)	\$ (1,805,962)	\$ (1,860,141)	\$ (1,915,945)	\$ (493,356)
Financing													
Bond Financing													
Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Principal Repayment	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt Service Interest	-	-	-	-	-	-	-	-	-	-	-	-	-
Cost of Issuance	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Financing Cash Flows	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Cash Flows	\$ (1,384,119)	\$ (1,425,643)	\$ (1,468,412)	\$ (1,512,465)	\$ (1,557,839)	\$ (1,604,574)	\$ (1,652,711)	\$ (1,702,292)	\$ (1,753,361)	\$ (1,805,962)	\$ (1,860,141)	\$ (1,915,945)	\$ (493,356)

Average Annual Cost
Average Monthly Outlay/sq.ft.

NPV @ 5%
Average Annual NPV
Average Monthly NPV/sq.ft.

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Exhibit 7: Legislative Office Building: Schedule of Floor Areas

Floor	BOMA Floor Areas, Square Feet				
	Office Area <i>a</i>	Building Common		Floor Common	Floor Rentable
		Area <i>b</i>	Floor Usable Area <i>c = a + b</i>	Area <i>d</i>	Area <i>e = c + d</i>
B	2,613	4,140	6,753	1,295	8,048
1	5,256	3,248	8,504	1,028	9,532
2	5,183	0	5,183	1,994	7,177
3	5,264	0	5,264	1,918	7,182
4	5,262	0	5,262	1,918	7,180
5	5,262	0	5,262	1,918	7,180
6	5,262	0	5,262	1,918	7,180
P	0	1,424	1,424	0	1,424
Total	34,102	8,812	42,914	11,989	54,903

Source:

RIM Architects: BOMA Floor Area Calculations for 716 W 4th Avenue, updated March 11, 2016

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Exhibit 8: Legislative Office Building: Estimateion of Operating Expenses under State Ownership

Jan 1 - Dec 31		
Landlord Reported Operating Expenses¹		
Security/Fire/Life Safety		
Security Monitoring	\$	420
DDC		4,200
Alarm/Inspection Repairs		5,700
Extinguisher Inspect/Repair		1,050
Monitoring Alarm/Phone/Spry		4,080
Alarm/Sprinkler Inspection		1,570
Emergency Lights		600
Total Security/Fire/Life Safety		17,620
HVAC		
Contract Services	\$	12,780
Non-Contract Services		2,500
Total HVAC	\$	15,280
Building Maintenance		
Generator	\$	2,722
Elevator Expense		19,080
Keys/Locks/Hardware		290
Plumbing Repairs		118
Total Building Maintenance	\$	22,210
Grounds Maintenance		
Landscaping	\$	360
Snow Removal/Sweeping		-
Total Grounds Maintenance	\$	360
Utilities		
Gas	\$	35,055
Electric		92,800
Waste/Sewer		1,920
Refuse		4,220
Recycle		923
Total Utilities	\$	134,918
Janitorial		
Contract	\$	64,316
Supplies & Materials		3,907
Window Cleaning		6,900
Total Janitorial	\$	75,123
Professional Fees		
Management Fees	\$	32,004
Total Professional Fees	\$	32,004

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Exhibit 8: Legislative Office Building: Estimateion of Operating Expenses under State Ownership

Jan 1 - Dec 31		
Insurance & Taxes		
Real Estate Property Taxes	\$	262,335
Insurance		
Property & Liability & Umbrella		19,000
Earthquake & Flood		59,664
Special Assessments		15,785
Total Insurance & Taxes	\$	356,784
Total Expenses	\$	654,299
ALIO Operating Expenses not Included in Landlord Estimates²		
GCI Cable	\$	4,320
American Guard Services		32,084
Chariot Group Audio/Visual		14,631
Easy Park Snow Removal		2,272
Total ALIO Other Operating Expenses	\$	53,307
Other Landlord Operating Expense Estimates³		
Parking Lot Striping	\$	1,000
ADA Signage (Future Liability)		2,700
Extraordinary Maintenance		86,133
Exterior Lights		1,000
Interior Lights		1,500
Plumbing Fixtures		1,000
Elevator ⁴		1,660
HVAC ⁴		10,720
Fire Suppression ⁴		1,930
Outdoor Area Major Maintenance		8,628
Total Other Landlord Annual Expenses	\$	116,271
Total 716 W. 4th Ave Private Ownership Operating Expenses	\$	823,877
Less Public Ownership Reduction in Operating Expenses:		
Real Estate Property Taxes	\$	(262,335)
Insurance		
Property & Liability & Umbrella		(19,000)
Earthquake & Flood		(59,664)
Total Public Ownership Reduction in Operating Expenses	\$	(340,999)
Total Annual Public Ownership Operating Expenses	\$	482,877

Sources/Notes:

¹ 2015 Landlord 2015 Reported Operating Expenses

² ALIO reported operating expenses not included in the landlord estimate

³ Waronzof Appraisal Report dated June 1, 2014 (p. 88)

⁴ Elevator, HVAC and fire suppression additional estimated costs are reduced by actual spent during 2015

Alaska Legislative Council
Exhibit 9: Costar Office Statistics: Anchorage

Quarter	Inventory Bldgs	Inventory SF	Occupancy SF	Occupancy Percent	Office Gross Rent Direct	Office Gross Rent Sublet	Office Gross Rent Overall	Office Base Rent Direct	Office Base Rent Sublet	Office Base Rent Overall	Gross Rent/Month	Base Rent/Month	Monthly % Change in Gross Rent	Annual % Change in Gross Rent
2015 Q4	574	13,329,759	12,523,890	94.00%	\$29.39	\$32.51	\$29.49	\$27.80	\$31.95	\$27.99	\$2.46	\$2.33	1.51%	0.82%
2015 Q3	574	13,329,759	12,520,779	93.90%	\$28.87	\$33.10	\$29.05	\$28.61	\$32.63	\$28.83	\$2.42	\$2.40	-1.16%	
2015 Q2	572	13,205,259	12,467,800	94.40%	\$29.37	\$30.59	\$29.39	\$29.06	\$30.13	\$29.12	\$2.45	\$2.43	2.83%	
2015 Q1	571	13,202,398	12,518,989	94.80%	\$28.57	\$30.02	\$28.58	\$28.41	\$30.50	\$28.48	\$2.38	\$2.37	-2.29%	
2014 Q4	571	13,202,398	12,517,015	94.80%	\$29.26	\$28.02	\$29.25	\$29.08	\$28.82	\$29.10	\$2.44	\$2.43	3.72%	9.26%
2014 Q3	571	13,202,398	12,461,633	94.40%	\$28.23	\$28.56	\$28.20	\$28.96	\$29.30	\$28.95	\$2.35	\$2.41	1.18%	
2014 Q2	570	13,102,398	12,463,931	95.10%	\$27.90	\$26.07	\$27.87	\$28.10	\$26.07	\$28.11	\$2.32	\$2.34	1.24%	
2014 Q1	570	13,102,398	12,445,759	95.00%	\$27.64	\$23.52	\$27.53	\$27.29	\$23.52	\$27.26	\$2.29	\$2.27	2.84%	
2013 Q4	570	13,102,398	12,437,780	94.90%	\$26.90	\$22.17	\$26.77	\$26.14	\$22.17	\$26.13	\$2.23	\$2.18	2.76%	-0.45%
2013 Q3	570	13,102,398	12,507,080	95.50%	\$26.18	\$19.75	\$26.05	\$26.15	\$19.75	\$26.12	\$2.17	\$2.18	-3.02%	
2013 Q2	570	13,102,398	12,554,882	95.80%	\$26.87	\$21.50	\$26.86	\$26.35	\$21.50	\$26.43	\$2.24	\$2.20	3.75%	
2013 Q1	570	13,102,398	12,547,946	95.80%	\$25.90	\$21.50	\$25.89	\$25.50	\$21.50	\$25.62	\$2.16	\$2.14	-3.72%	
2012 Q4	570	13,093,598	12,406,208	94.80%	\$26.81	\$32.21	\$26.89	\$25.49	\$32.21	\$25.72	\$2.24	\$2.14	3.74%	-3.34%
2012 Q3	570	13,093,598	12,399,179	94.70%	\$25.83	\$32.21	\$25.92	\$25.53	\$32.21	\$25.73	\$2.16	\$2.14	2.65%	
2012 Q2	570	13,093,598	12,433,467	95.00%	\$25.06	\$32.49	\$25.25	\$23.97	\$32.49	\$24.34	\$2.10	\$2.03	-3.63%	
2012 Q1	569	13,084,598	12,506,598	95.60%	\$26.05	\$32.49	\$26.20	\$25.43	\$32.49	\$25.69	\$2.18	\$2.14	-5.82%	
2011 Q4	569	13,084,598	12,432,353	95.00%	\$27.70	\$32.49	\$27.82	\$26.63	\$32.49	\$26.84	\$2.32	\$2.24	3.65%	4.98%
2011 Q3	569	13,084,598	12,402,997	94.80%	\$26.74	\$29.29	\$26.84	\$26.37	\$29.99	\$26.58	\$2.24	\$2.22	0.68%	
2011 Q2	569	13,084,598	12,316,667	94.10%	\$26.58	\$28.14	\$26.66	\$26.12	\$28.80	\$26.30	\$2.22	\$2.19	-0.11%	
2011 Q1	569	13,084,598	12,287,786	93.90%	\$26.61	\$28.14	\$26.69	\$25.80	\$28.80	\$26.01	\$2.22	\$2.17	0.72%	
2010 Q4	567	13,040,575	12,339,885	94.60%	\$26.45	\$27.17	\$26.50	\$25.56	\$27.71	\$25.40	\$2.21	\$2.12	2.00%	
Avg.	570	13,134,796	12,452,030	94.80%	\$27.28	\$28.19	\$27.32	\$26.78	\$28.33	\$26.89	\$2.28	\$2.24	0.64%	2.26%

Source: Costar

Alaska Legislative Council
Exhibit 10: Documents Reviewed

No.	Description	Document Name
1	Current lease with 716 W. 4th Ave. LLC	2. Anchorage Extension of Lease and Lease Amendment No. 3
2	Area calculations for 716 W. 4th Ave.	3. BOMA Rim Architect Floor Plans
3	Area calculations for 716 W. 4th Ave. parking	4. RIM Architects Parking Layout
4	2015 monthly tenant operating statement	5. Anchorage LIO CY2015 Actual Expenses
5	2011 property tax assessment appeal	6. Landlord Lowering Appraisal of 716 W 4th Ave 2.14.2011
6	2016 public inquiry parcel details for 716 W 4th Ave	7. Municipality of Anchorage Assessment 2 12 16
7	2013 public inquiry parcel details for 716 W 4th Ave	7a 712, 716 W 4th 2013 assessment
8	List, size and rate of all State leases in Anchorage	8. Exec Branch Leases for Anchorage
9	List, size and rate of all State leases in Alaska	9. LAA Statewide Leases
10	2013 AHFC cost estimation report for 716 W 4th Ave	10. Evaluation of Costs Estimate for Downtown Development (AHFS) 10 10 2013
11	Summary of all 716 W 4th appraisals	11. Appraisal Overview by Serena Carlsen
12	July 8, 2015 Kidder Mathews appraisal of 716 W 4th	11a. Kidder Mathews Appraisal
13	December 5, 2014 Reliant appraisal of 716 W 4th	11b. Reliant Appraisal LIO Building Full Doc
14	June 1, 2014 Waronzof appraisal of 716 W 4th	11c. Waronzof Associates Appraisal
15	LAA analysis of Test Fits 1-4	12. LAA Analysis of 716 W Fourth Ave Proposal 2.5.16
16	Landlord proposed purchase option	13. 716 W Fourth Avenue LLC Proposal 1.29.16
17	November 24, 2015 State presentation of scenarios	13a. Senator Stevens Anch LIO 10 Yr Comparison
18	State presentation of scenarios updated to 20 years	13b. Anchorage Office Space Scenarios 20 Year updated
19	Construction cost estimate for 909 West 9th	14. HMS Conceptual Design Submittal for 909 W 9th Ave
20	Total Development cost estimate for 909 West 9th	14a. NANA Information
21	Payment support of TIs at 716 W 4th	15a. Tenant Improvement Payment Log \$7.5 M
22	Invoices for temporary space leased during TIs	16. Temporary Space Costs Paid at 716 W 4th Avenue
23	Scenario analysis prepared by appraiser (excel)	22. Peter Shorett Anchorage Legislative Offices Scenario Analysis State Rates
24	Scenario analysis prepared by appraiser (PDF)	22a. Peter Shorett Analysis PV
25	DOR summary of scenario analysis	23. Devene Mitchell Email
26	February 2, 2016 bond analysis	23a. Debt Service Scenarios for 37.95 million
27	December 14, 2015 loan analysis #1	24. AIDEA LIO Scenario 1
28	December 14, 2015 loan analysis #2	24a. AIDEA LIO Scenario 2
29	Email from AHFC with bonding scenarios	25. AHFC Mike Strand
30	2015-2016 maintenance issue log	716 W 4th Avenue Building Maintenance and Operating Problems
31	1993-2016 Anchorage office space activity log	Anchorage Office Space Recap
32	Scenario analysis prepared by landlord - Long	Atwood vs Anch LIO - Long Version Landlord Figures Not Actuals
33	Scenario analysis prepared by landlord - Short	Atwood vs Anch LIO - Short Version Landlord Figures Not Actuals
34	Survey of Anchorage parking spaces and rates	Downtown Parking Comparison - July 2015

Alaska Legislative Council
Exhibit 10: Documents Reviewed

No.	Description	Document Name
35	2015 monthly tenant operating statement	Exhibit C
36	Actual tenant operating expense between 11-16	FY11-FY16 ALIO Cost Compilation
37	In place parking operating contract with operator	img-224135117-0001 Parking Contract 4-2015
38	In place parking maintenance contract with operator	img-224123211-0001 car park maintenance contract
39	Mr. Lowe notes/comments to scenario analysis	Herron Request AHFC Buller Memo Attachment 1.22.16
40	AHFC email requesting the to seek external guidance	Herron Request AHFC Buller Memo 1.22.16
41	ADIEA email summarizing bonding analysis	Anch LIO AIDEA Information Email
42	AHFC email quoting bonding rate for 20-year term	FW LIO Building Lease Bond Debt Service
43	AHFC 716 W 4th 30-Year bond service analysis	SC16A_30YearDebtService
44	Landlord 2015 operating expense estimate	716 2015 operating expenses
45	Landlord prepared scenario analysis (excel)	Test fit 4
46	Landlord prepared scenario analysis (excel)	Test fit 7
47	2012 State owned Anchorage office rates	FY12 PBF Rates without LPPG Depreciation - Final 11.1.10
48	2013 State owned Anchorage office rates	FY13 PBF Rates without LPPG Depreciation X Building - Final 11.18.11
49	2014 State owned Anchorage office rates	FY14 PBF Rates without LPPG Depreciation Final.1 8-27-12 by Building w...
50	2015 State owned Anchorage office rates	FY15 PBF Rates with 7-year tiered LPPG Depreciation without GMC by Bldg
51	2016 State owned Anchorage office rates	FY16 PBF Rates GF Credit 7.1.5
52	Atwood Floor 1 Plan	LIO 1
53	Atwood Floor 2 Plan	LIO 2
54	Atwood Floor 19 Plan	LIO 19
55	2016 State owned Anchorage office rates	FY16 PDF Rates by Building 7.1.15
56	733 W 4th (temp office) 1st floor layout plan	1st Floor 2013-12
57	733 W 4th (temp office) 2nd floor layout plan	2nd Floor 2015-11
58	733 W 4th (temp office) 3rd floor layout plan	3rd Floor 2015-040-15 Color Graphic Plan
59	733 W 4th (temp office) 4th floor layout plan	4th Floor 2012-07-25 Color Graphic Plan
60	Available office space and rates in 733 W 4th	CB4 Marketing Package