

HOUSE FINANCE COMMITTEE  
February 12, 2001  
1:37 P.M.

TAPE HFC 01 - 24, Side A  
TAPE HFC 01 - 24, Side B

CALL TO ORDER

Co-Chair Mulder called the House Finance Committee meeting to order at 1:37 P.M.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair  
Representative Bill Williams, Co-Chair  
Representative Con Bunde, Vice-Chair  
Representative John Davies  
Representative Carl Moses  
Representative Richard Foster  
Representative John Harris  
Representative Bill Hudson  
Representative Ken Lancaster  
Representative Jim Whitaker

MEMBERS ABSENT

Representative Eric Croft

ALSO PRESENT

Christine Parce, Director, Division of General Services, Department of Administration; Vern Jones, Chief Procurement Officer, Division of General Services, Department of Administration; Pat Davidson, Legislative Auditor, Legislative Audit Division; Dane Larsen, Division of Legislative Audit

PRESENT VIA TELECONFERENCE

Mary Marshburn, Director, Division of Motor Vehicles, Department of Administration.

GENERAL SUBJECT(S):

**OVERVIEW: STATE LEASING**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 22nd Legislative Session, contact 465-2156. After the 22nd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	<b>TAPE HFC 00 - 24 SIDE A</b>	
000	Co-Chair Mulder	Opened House Finance Committee meeting. He advised that the discussion would provide an overview of State leasing by the Department of Administration.
142	CHRISTINE PARCE, DIRECTOR, DIVISION OF GENERAL SERVICES, DEPARTMENT OF ADMINISTRATION	Explained that Department of Administration manages the State leasing programs. She explained that the mission of that agency was to provide for cost effective and efficient office space for State agencies in a timely manner. She added that the leasing component mission is to provide centralized support services for all State agencies. Ms. Parce continued, noting that the goal was to provide cost effective management of the State's lease portfolio through: <ul style="list-style-type: none"> <li>• Assure efficient use of space in State leased facilities;</li> <li>• Provide suitable, economical office space that meets State agency needs;</li> <li>• Replace, in a timely &amp; efficient manner, expiring State leases where needed;</li> <li>• Implement an improved tracking system to provide better State agency customer service and response time.</li> </ul>
270	Ms. Parce	Listed the key issues for FY2001: <ul style="list-style-type: none"> <li>• Deploy an automated lease tracking &amp; projection data management system;</li> <li>• Obtain replacement space for leases expiring in FY2001 and FY2002;</li> <li>• Obtain new or additional space for State agencies as required.</li> </ul>
399	Co-Chair Mulder	Asked the historical perspective in what the State has paid for the leases for the past few years. He questioned if it had been increasing.
423	Ms. Parce	Replied that the last two years have been flat and commented that it has stayed in the \$33 million dollar bracket. She offered to provide a ten-year history comparison.
451	Representative J. Davies	Referenced the \$1.9 million dollar short funding and asked what was anticipated

		for the new year bidding process.
472	Ms. Parce	Stated that the \$1.9 was from the FY00 budget. She noted that those obligations remain and need to be funded through the 2001 year. She acknowledged that the major new lease was the one in Anchorage for DMV and would be a replacement for several Division of Motor Vehicle (DMV) spots. Ms. Parce elaborated that road construction happening in that area extenuates the need for new space.
584	Representative Harris	Requested a historical view of the lease numbers for the Department of Health and Social Services and why those numbers are increasing so radically.
637	Ms. Parce	Explained that those numbers changed because of a consolidation for the Department moving into the Frontier Building.
675	Representative Hudson	Addressed the Atwood Building and asked the net plus or minus from action taken last year showing up in this fiscal year's fiscal budget.
717	Ms. Parce	Offered to provide that information. The reasoning for the action was to leverage federal and non-general fund dollars into the State.
746	Representative Hudson	Asked if it was an increase or decrease in the expenditure between the Frontier and the Atwood buildings.
750	Ms. Parce	\$1.85 per square foot- Frontier Building \$1.07 per square foot - Atwood Building
845	Co-Chair Mulder	Referenced the DMV contract and asked if it had been anticipated in last year's budget.
872	VERN JONES, CHIEF PROCUREMENT OFFICER, DIVISION OF GENERAL SERVICES, DEPARTMENT OF ADMINISTRATION	Replied that the Division did anticipate replacing the DMV's lease in last year's budget. An estimate had been included, which was not enough.
894	Co-Chair Mulder	Questioned if the lease was not funded, was there a back out.
912	Mr. Jones	Replied that was a standard term of all leases and that continued occupancy of the space was contingent upon Legislative appropriation. In response to Co-Chair Mulder, Mr. Jones noted that if the Legislature chooses not to go forward with the contract, their attorney's agree that it would be difficult to not fund just one lease. The practicality of backing out of a lease would be

		addressing damages with the firm awarded the contract. Another issue would be dealing with the practicality of what to do with the DMV. He asked if there would need to be other emergency space found. He emphasized that the present location does not work for the public.
1002	Co-Chair Mulder	Understood that the road construction was being delayed.
1013	Mr. Jones	Stated that the road construction was on schedule and that the Department of Transportation & Public Facilities would begin construction during the busiest season for DMV in April. There are incentive payments built into the lease to get them out of that space by April.
1040	Vice-Chair Bunde	Commented on past legislative concerns with that Division.
1070	Co-Chair Mulder	Reiterated that there were many issues regarding the DMV issue. He asked the justification from the Department's perspective.
1089	Mr. Jones	Outlined the need for leased office space. General Services does not write the specifications, instead that is up to the agency being affected needs. In the case mentioned, the Department funded architectural firms & design firms to help write the needed specifications. He acknowledged that the space requirements have increased. They have been in their current space since the late 1970's and the employee count has increased since that time. Their current situation pays low market price of \$1.10 per square foot into a market rate which has increased over the last few years dramatically. Additionally, there exists a timing requirement which was short to acquire additional space to move DMV out. These factors added up to increased costs to the original lease.
1181	Co-Chair Mulder	Emphasized that the proposed lease was an illogical use of funding dollars.
1195	Mr. Jones	Stated that the change would be from \$18,000 per month to \$87,000 per month.
1211	Ms. Parce	Noted that it was more space and would be more adequate for the needs of that agency. More staff would be moved from other locations. Additionally, the location would be more convenient for the customers. She added that at the current location, the road space for vehicle is

		being "borrowed". The new space would be able to protect that concern.
1295	Co-Chair Mulder	Asked the relationship with the current landlord and if there was a possibility for an extension in that lease.
1311	Mr. Jones	Stated that there was an option for a renewal. Noted that the role of General Services was that when customer agencies need lease space, those specific specifications of need are determined by that specific agency.
1357	Representative Hudson	Asked the difference in square footage for the new proposed lease space and the current space.
1402	Ms. Parce	Explained that the difference between the two would change from 15,500 square feet (current location) to 17,300 square feet (proposed location) and would additionally provide for the testing area of 24,700 square feet; parking spaces would go from 130 spaces to 225 spaces. The new location would provide an expansion of the testing, office and parking areas. Square footage space needs have increased. Ms. Parce added that there would be an escalator in the space. She pointed out that there has been an average of 3% increase in the Consumer Price Index (CPI) over the years.
1474	Ms. Parce	In response to Representative Hudson, Ms. Parce reiterated that the Department has not been paying for the testing area to date but rather "borrowing" it.
1503	Co-Chair Mulder	Reiterated the annual increase in lease costs.
1515	Representative Whitaker	Asked who had the authority to say "no" to a Department's request.
1530	Mr. Jones	Replied that this was a dramatic increase. For years, the State has had substandard space. The Department did not realize the full extend of the total value until the proposals came in. The Department and General Services could say no, however, it was a policy decision that the customer could not stay in the current location.
1572	Representative Whitaker	Asked if the Department assumed that the Legislature would agree with the decision.
1588	Mr. Jones	Believed that the alternative of moving forward with the DMV in the current location was not a situation that could be continued. He requested that DMV

		testify to the consequences of staying in the present location.
1603	Representative Hudson	Noted that all leases are subject to legislative appropriation, which is a legislative mandate. He believed that the Department could re-bid or re-negotiate with the existing leaseholder. Mr. Jones noted that there were consequences to doing that.
1646	Representative Whitaker	Conclusion is that the Department has allocated funds, which is a legislative mandate.
1659	Representative Lancaster	Asked if the existing landlord would have been willing to upgrade the lease.
1674	Mr. Jones	Replied that over the years, the Department has made numerous attempts to get that landlord to make appropriate changes and upgrade the lease. This has been an on-going issue for many years.
1711	Ms. Parce	Spoke to the anticipated savings with the move. She noted that it would be more convenient for the customer.
1723	Representative Lancaster	Spoke to the lease agreement and the incentive bonuses included to get the space ready early. He did not agree that was appropriate.
1745	Ms. Parce	Explained that the bonuses were added for the contractors to get the space ready earlier.
1770	Mr. Jones	Interjected that those bonus payments would not be incurred.
1780	Representative Davies	Requested that the DMV Director testify.
1839	Co-Chair Mulder	Noted that 1 <sup>st</sup> the Division of Audit would provide an overview of a preliminary review of the space acquisition for DMV.
1860	PAT DAVIDSON, DIRECTOR, DIVISION OF LEGISLATIVE AUDIT	Explained the history of the memo before the Committee. [Copy on file]. She noted that Division was requested to look at the situation to see if there were any audit issue by Co-Chair Mulder's Office. That provided the attached review. She noted that this was not a "full blown" audit and that the Department was <u>not</u> given an opportunity to respond.
1908	DANE LARSEN, DIVISION OF LEGISLATIVE AUDIT, (ANCHORAGE OFFICE MANAGER)	Addressed how the RFP was evaluated. The RFP specified approximately 15,000-16,000 square feet of office space and 2,800 square feet of warehouse space. The space was to be located in mid-Anchorage. The lease terms were for additional nine years, with three three-year extensions.

		<p>He noted that there were four concerns:</p> <ul style="list-style-type: none"> <li>• The RFP stated that the pricing scores</li> <li>• The pricing structure allowed the pricing to change. There could be a different proposal to evaluate that industry standard.</li> <li>• The non-price components were over-rated in the scoring summary. That was inconsistent with the stated RFP.</li> <li>• The high price of the lease, which was double what, General Services had expected.</li> </ul>
1982	Mr. Larsen	<p>Mentioned the exclusion of the additional nine years. He stated that the substance of the RFP was recognizable. The pricing structure in the RFP had three components. The 1<sup>st</sup> was the total cost for the first nine years. He stated that only years 10-18 were used to evaluate the lease.</p>
2043	Mr. Larsen	<p>Added that the auditors were surprised that they did not use the normal system. General Services determined that North Star was the chosen bidder. Division of Audit noted that North Star was 33% higher than the lower bidder.</p>
2087	Mr. Larsen	<p>He stated that an item not included in the memo was that General Services erred in summarizing the non-price components. The price (35%) was made up of the initial annual lease amount less any reduction for the extension periods.</p>
2121	Mr. Larsen	<p>Reiterated concern with the cost of the lease. He emphasized that this is high quality space. He thought that there were more interview rooms than are necessary for that type business, acknowledging that was a minor issue. Mr. Larsen noted that the primary concern was that the price came in at twice the going rate. He thought that General Services encouraged a high bid by the way it was written.</p>
2170	Mr. Larsen	<p>He spoke to North Star as the winner of the bid. They received a high score in the function, appearance, and convenience categories. He stated that General Services could have cancelled the contract.</p>
2225	Mr. Larsen	<p>Noted that General Services has been</p>

		willing to address these concerns in the future.
2241	Representative Davies	Asked if there had been a response made by the Department.
2250	Co-Chair Mulder	Stated that the Division was asked to do a quick overview and they did not have an opportunity to respond. He noted that they had not gone through the full audit process. They were asked to see if it met traditional budget review.
2267	Ms. Davidson	Stated that the Department had not been given a formal opportunity to respond. The conclusion was that an audit would not be necessary.
2283	Representative Davies	Stressed that these comments were handled in a "quick and dirty" way without the normal response from the agency. He voiced his concern with the process noting the normal auditing process for the agency to respond.
	<b>TAPE HFC 01 - 24, Side B</b>	
004	Co-Chair Mulder	Stated that the Department had not yet responded and that his concern was timing. He pointed out that DMV could respond at this time.
052	MARY MARSHBURN, DIRECTOR, DIVISION OF MOTOR VEHICLES, DEPARTMENT OF ADMINISTRATION, ANCHORAGE (testified via teleconference)	Addressed the previous testimony given by the Legislative auditor, indicating that she had not received the results of their inquiry. The pricing structure and RFP evaluation would need to be addressed by General Services. Regardless of using net present value, North Star was the successful bidder in the contract.
185	Ms. Marshburn	Explained that the process has been ongoing for four years. She noted that it would be the consolidation of four separate spaces. Ms. Marshburn mentioned the efficiencies that would be achieved through the move. She noted that Department of Public Safety had been "breathing down the neck" of DMV since they were using a portion of their facilities. Department of Public Safety needed all of their spaces. In moving out of the current facility, there will be greater consolidation and more efficiency throughout State government.
365	Ms. Marshburn	Listed the DMV customers noting that included commercial customers, dealerships, fleets, rental car agencies and others. At this time, DMV is located in three different facilities, which

		means that those business partners must go to three separate facilities. The consolidation will affect everyone. She emphasized that the move would allow DMV to furnish a better quality of service. The space at Dowling Road has been used since 1975. The amount of that lease reflects the time it was signed, the quality of the space and the amount of square footage. Ms. Marshburn pointed out that the DMV operations have changed dramatically since 1975.
540	Ms. Marshburn	If the agency does not move, the current costs will still increase. The Dowling Road construction will begin as soon as the snow is gone and at that time, Dowling Road will be a one-lane street. She acknowledged that there will be costs in "beefing" up current facilities and that the Dowling Road facility is currently for sale.
665	Co-Chair Mulder	Inquired who wrote the RFP.
677	Mr. Jones	Replied that General Services wrote the RFP with input from the Division of Motor Vehicles on specifications. He explained that there is no standard in the bidding process. Each case is considered individually.
725	Co-Chair Mulder	Questioned the myth of the low bid.
740	Mr. Jones	Replied that this was not a low bid situation. This was an RFP award including a number of other factors. He noted that the Department has found over the years that the low bid is not always a good vehicle to go with for lease space. There have been numerous complaints with using that system. Six years ago the agency switched to an invitation for bid for lease space. It does not always result in an award for lowest price but rather the "best value".
822	Mr. Jones	Spoke to some points made by the LBA overview. He did not accept that only the price was evaluated from years 9-18. He suggested that the net present value should be checked into. He did not agree that the non-price components were overweighed; however, it is important to note that if you accept all three of those allegations that it would not have changed the award. There was no legal basis to cancel the award. There are 7 or 8 reasons listed in regulations, which

		allow the agency to cancel a reward.
950	Mr. Jones	In response to Co-Chair Mulder, Mr. Jones did not believe that there was any legal basis to not accept the lease.
977	Co-Chair Mulder	Every one agrees with Legislative Audit that the pricing discount was skewed and that this was a political decision.
1012	Mr. Jones	Repeated that the Division has had yet had an opportunity to review the audit. He stated that the price offered was not significantly higher than the market rate. This would be class B space; The current space is very bad and below Class C.
1049	Co-Chair Mulder	Questioned the class space necessary for DMV.
1064	Mr. Jones	Responded that would be determined by the agency outlining the requirements, this case DMV.
1086	Co-Chair Mulder	Spoke to the "disconnect" happening with this RFP. He asked who tells the Division of Motor Vehicles what is necessary. He asked the check and balance system in place.
1104	Mr. Jones	Noted that there were design firms helping to write the specifications. General Services was comfortable with the specifications that went out.
1125	Co-Chair Mulder	Asked if General Services had checked with anyone in the Legislature regarding the substantive changes being made.
1155	Ms. Parce	Interjected that the current office space was way below market. The current space will be \$1.97 per square foot, which is not that "outrageous" in Anchorage.
1188	Co-Chair Mulder	Reiterated that they did not go with the lowest bid.
1203	Representative Davies	Understood the concerns, however, pointed out that DMV has been in such substandard conditions for so long. He reiterated his concerns with the process of the audit that the Division and General Services had not yet seen.
1240	Co-Chair Mulder	Argued the cost of the increment being requested. He voiced his anger over the checks and balances of the process. He did not perceive that DMV should be using Class A or B office space. He stressed that this was not a warranted cost.
1322	Representative Whitaker	Inquired about the procedural problems. He questioned that the Department made a decision with the lease upgrade and made

		a de facto appropriation of \$15 million dollars. He wondered who authorized that.
1387	Ms. Parce	Replied that General Services is charged with the responsibility to make leasing decisions for the State.
1414	Representative Whitaker	The reality is that General Services made that determination.
1458	Mr. Jones	Interjected that this is the market value in Anchorage at this time.
1478	Co-Chair Mulder	Asked the real issue.
1485	Mr. Jones	Noted that what has happened is that they have gone from a sub market rate to the current market rate. Mr. Jones mentioned that the price was determined by the agency and their needs and specifications. He acknowledged that General Services was surprised by the price.
1538	Mr. Jones	DMV could not stay at their current location with the conditions as they were.
1596	Co-Chair Mulder	Emphasized that they could have gotten a better deal if they would have attempted to.
1616	Vice-Chair Bunde	Asked about specifics regarding location and class of office size and other options.
1646	Ms. Marshburn	Emphasized that this was not a matter of getting out of Dowling Road. The plan has been under consideration for 2 years. There has been no lease signed for 10 years and that the landlord was willing to renew the lease. She stressed that landlord has been a "non-responsive" landlord in a substandard space. The Division looked at the entire Anchorage area demographics. There were five responders to the RFP's. The highest bidder was twice above that of the lowest bidder.
1745	Vice-Chair Bunde	Asked if there was any Class C office space available.
1821	Ms. Marshburn	Stated that the efficiencies were reflected in the bid.
1844	Vice-Chair Bunde	Questioned if that reflected the Division's position.
1869	Ms. Marshburn	Stressed that the Division would remain in the building for a long time. A professional space planner was used. The planner did not recommend any big changes to the Division's plan.

1894	Co-Chair Mulder	Asked about the location.
1906	Ms. Marshburn	Described the location.
1914	Co-Chair Williams	Questioned if the Department could "live with" a Class C office space.
1930	Mr. Jones	Responded that the definition of Class C is building space offered at less than market rate, which can be difficult to recognize. Class C could be almost anything, therefore specific qualifications were used.
1971	Ms. Marshburn	Noted that the State does not use a classifications system. She reiterated they would be in the building 18 years or more. The Division's emphasized their role, which is to serve the public. Ms. Marshburn reviewed some of the requirements, emphasizing that the focus was on the customers.
2041	Co-Chair Mulder	Questioned how much value was placed on the cost, reiterating the large increase.
2059	Ms. Marshburn	Replied that 35 points were used for the cost determination out of a possible 100 points. She noted that bids are evaluated before the price. Ms. Marshburn noted that DMV was also surprised by the cost. She noted that they were currently paying significantly below market cost for the current location.
2130	Representative Hudson	Asked if lease purchase had been considered.
2140	Ms. Parce	Replied that lease purchase had not been considered.
2165	Co-Chair Mulder	Noted that the City of Anchorage was frustrated with lease purchase.
2177	Representative Moses	Questioned the square footage comparison.
2189	Ms. Parce	Noted that the square footage was a factor. The parking and testing area is about double the current size. She acknowledged that they do not pay for the testing area in the current location.
2217	Co-Chair Mulder	Noted that General Services are supposed to show savings and reports to the Legislature. Ms. Parce stated that General Services had reported that every year.
		<u>ADJOURNMENT</u>
		The meeting was adjourned at 3:05 p.m.