

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

May 9, 2002
8:07 a.m.

MEMBERS PRESENT

Representative John Coghill, Chair
Representative Jeannette James
Representative Hugh Fate
Representative Gary Stevens
Representative Peggy Wilson
Representative Harry Crawford

MEMBERS ABSENT

Representative Joe Hayes

COMMITTEE CALENDAR

HOUSE BILL NO. 533

"An Act relating to public building projects of the Alaska Housing Finance Corporation, authorizing the financing by the Alaska Housing Finance Corporation of a building in Anchorage for office space for state, federal, and municipal agencies and subdivisions; and providing for an effective date."

- MOVED HB 533 OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 533

SHORT TITLE: AHFC FINANCING OF GOVERNMENT OFFICE BLDG

SPONSOR(S): RLS

Jrn-Date	Jrn-Page		Action
05/08/02	3446	(H)	READ THE FIRST TIME - REFERRALS
05/08/02	3446	(H)	STA, FIN
05/09/02		(H)	STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

REPRESENTATIVE JOE GREEN
Alaska State Legislature
Capitol Building, Room 403
Juneau, Alaska 99801

POSITION STATEMENT: Presented HB 533 as sponsor.

PAUL FUHS

World Trade Center Alaska
(No address provided)

POSITION STATEMENT: Testified in support of HB 533.

JOHN BITNEY, Legislative Liaison
Alaska Housing Finance Corporation (AHFC)
Department of Revenue
PO Box 101020
Anchorage, Alaska 99510-1020

POSITION STATEMENT: Described what the bill does and what it is based on and explained the role of AHFC in the financing of HB 533.

ACTION NARRATIVE

TAPE 02-55, SIDE A
Number 0001

CHAIR JOHN COGHILL called the House State Affairs Standing Committee meeting to order at 8:07 a.m. Representatives Coghill, Fate, Stevens, Wilson, and Crawford were present at the call to order. Representative James arrived as the meeting was in progress.

HB 533 - AHFC FINANCING OF GOVERNMENT OFFICE BLDG

Number 0092

REPRESENTATIVE JOE GREEN, Alaska State Legislature, sponsor, presented HB 533. He told the committee that while there are offices available in Anchorage, there are really none available to handle large groups of people, such as the Legislative Information Office (LIO). Not too long ago the Bank of America building was purchased, and it houses several different groups from the agencies, but it's full now. He told the committee that the lease for the LIO will expire next May. Space has been looked for, but the current rent is going to double, and the facilities are not actually as good as they might be.

Number 0195

REPRESENTATIVE GREEN noted that he has been trying to find places to house the LIO and hasn't really come up with much, and it's probably going to take a new building. He suggested that

here is an opportunity to house the LIO, as well as bring in several state and federal agencies. It will allow for more efficiency and save the state money. He told Chair Coghill that he thought this bill came about from a subcommittee of the Legislative Council, which has been working on office space for the past 2.5 months.

Number 0330

PAUL FUHS, World Trade Center Alaska, told the committee that he has been working on this for about 15 years, since he was mayor of Dutch Harbor. There is a lot of support from fishery agencies in Western Alaska for a \$50 million project in Anchorage that can be the service center for the fisheries in Alaska rather than in Seattle. He acknowledged that is significant. For Alaska fisheries to be effective overall, there needs to be a clear focus, and people need to work together. The research needs to tie together with the management and the business development, and co-locating a building like this is a way to do that.

Number 0439

MR. FUHS indicated that the best example of this is the Ronald Reagan World Trade Center in Washington, D.C. It houses the U.S. Department of Commerce and all the international trade offices in Washington, D.C. in about a 1.3 million square foot building. The model is this public/private partnership of a building with a mission for a purpose. Some of the state and federal fisheries agencies should be coordinating more closely, such as the National Marine Fisheries Service and the Alaska Department of Fish & Game, he said. Many of them have shared overlapping jurisdictions over fisheries, and a lot of the research isn't even done in Alaska; the Alaska Fisheries Science Center is in Seattle. It has about 300 employees that should be located in Alaska who do research for the North Pacific Fishery Management Council and all the allocations for the Bering Sea.

Number 0526

MR. FUHS noted that this building would encourage program efficiencies, but it would also be a cost savings. If the state owns the building, it saves money. Alaska Housing Finance Corporation (AHFC) has financed other buildings, and actually AHFC owns the state office buildings in Juneau and Fairbanks and some other buildings under the old ASHA (Alaska State Housing Authority).

Number 0573

MR. FUHS said almost every one of these agencies wouldn't be taken out of a private building. The permitting agencies could be located together - the Army Corps of Engineers is out on the base and people almost can't get there anymore because of increased security at the base. The North Pacific Fishery Management Council is in the old federal building, and the federal GSA [General Services Administration] wants more space in the federal building in Anchorage for the court system and would like to move some people out. The National Marine Fisheries Service, NOAA [National Oceanic and Atmospheric Administration], and some of these other agencies are in the federal building, so it looks like a pretty good fit to bring them together into one facility that could provide a clear focus, he said.

MR. FUHS emphasized that this would not take a single person from those offices in Juneau or Kodiak. He told the committee that the U.S. congressional delegation is very supportive of this concept. He indicated that the genesis of this was the fisheries agencies, but in talking with people about the frustration with the LIO space, it was discussed that it could be designed to include the LIO and save the state some money in the long term.

Number 0729

MR. FUHS assured the committee that this is not some kind of a capital move in disguise. This legislative space is needed in Anchorage anyway, regardless of anything else that happens. This building should be built for security, and that needs to be thought about now. From his experience as an explosives expert, he told the committee that many of the facilities occupied by the State are extremely vulnerable to that type of attack.

MR. FUHS explained that the \$50 million comes from building a facility that would have about 200,000 square feet, which is the estimate for the agencies that would occupy the building. It would include about 25,000 square feet for the legislature and maybe another 30,000 square feet for fish and game or some other state agencies, and the rest would be federal agencies. The AHFC owns about two blocks around the Atwood Building which is one possible site. Other sites looked at include Ship Creek and the McKay Building, but the site near the Atwood Building offers coordination with the agencies there.

Number 0860

MR. FUHS referred to the maintenance issue. He noted that in the Atwood Building, a certain amount of the rent is specifically set aside for long-term maintenance, and that is in the contract for the rent. There is also a private property manager that looks out for the building and is accountable.

Number 0941

JOHN BITNEY, Legislative Liaison, Alaska Housing Finance Corporation (AHFC), Department of Revenue, told the committee that AHFC doesn't have any position either for or against HB 533; he just wanted to describe what the bill does and what it is based on. The bill authorizes AHFC to enter into agreements in order to lease facilities to the state, federal, or municipal entities, he explained. This is an old ASHA statute from the old public building finance Act. It has been used by the state numerous times over the years to use the state housing authority as a financing agent for leaseback finances. A financing vehicle is being generated to take advantage of various tax provisions and tax advantages as a governmental entity in order to achieve some savings and get a building that the state owns.

Number 1050

MR. BITNEY noted that there is nothing in the bill that would harm AHFC. The bill authorizes the corporation to do this project. The authority in the bill is fairly broad. He had prepared a zero fiscal note for the bill. He indicated that in any type of agreement like this, AHFC wouldn't be putting money in; it would be providing the technical expertise of putting the financing together. If the legislature and the governor are willing with this piece of legislation, the AHFC would proceed with negotiations with the developer and with the entities. There would be a board approval process at AHFC in order for this deal to go forward.

MR. BITNEY referred to the stack of documents and explained that they are just an example of the kinds of documents needed to do something like this. Included are an official statement on the bond on the Atwood purchase, the lease agreements, tax rules, and the kinds of issues it would go into with the rating agencies. He said he wanted the committee to know that there is a tremendous amount of work that goes into deals such as these

before any kind of purchase or new construction is pursued. The estimates he provided with the sheet attached to the fiscal note are just various financing rough assumptions using basic tax-exempt rates conservatively of about 6 percent over a 20-year term. By looking at the spreadsheet, the committee can estimate some of the estimated debt service costs in various square foot sizes. He told the committee that over the life of a building over 50 years, there would be savings to the State for using this kind of financing.

Number 1275

CHAIR COGHILL asked how the municipality feels about the state ownership of the Atwood Building.

Number 1330

REPRESENTATIVE GREEN referred to a letter of support from [Anchorage] Mayor Wuerch [included in the committee packet].

MR. FUHS clarified that the letter from Mayor Wuerch was when they were talking about the World Trade Center building, and this would be a privately developed world trade center. It would be closely co-located, but it would be privately financed. Even though the municipality supports the overall concept, it does have some issues with taxes; it would prefer that every building be taxable in the community, he said. Mr. Fuhs stated his belief that the private portions in the Atwood Building are taxable. In this case, any world trade center private functions, fishing groups, and foreign consulates would all be taxable. [Building] this isn't done to try to get out of property taxes; that's a minimal advantage. The real advantage is the tax-exempt financing that saves money.

CHAIR COGHILL expressed concern about the broadness of the bill and wondered if all municipalities would have the possibility of having a greater government structure building.

Number 1497

MR. BITNEY replied that the authority would be there per the amendment by the legislation, but each project under that statute does require an authorization by law of the legislature.

CHAIR COGHILL said one of his concerns for Alaska is the ever growing governmental entity, the nonprofit entity, the

diminishing private entities, and the economy being structured by that dynamic.

REPRESENTATIVE GREEN commented that this bill would free up the space being occupied by these agencies for tax returns for the city.

Number 1557

REPRESENTATIVE WILSON asked if there was a possibility that a private group could build and own the building, and the state could rent it.

MR. FUHS replied that that could be done, but the state wouldn't be able to take advantage of the tax-exempt bonds, and the real savings are when the state owns its own buildings rather than leases them.

REPRESENTATIVE GREEN said that is one of the problems in trying to find space for the LIO. There are buildings being built, but the unfortunate part is they don't have the benefit of tax-exempt bonds, so their costs are higher; therefore, the rents are higher.

Number 1622

REPRESENTATIVE WILSON emphasized the importance of having a policy for the maintenance costs. She wondered what would happen if there weren't enough renters to cover the costs.

MR. FUHS explained that HB 533 authorizes AHFC to talk to people about that, along with the developers and the world trade center. All the agencies are interested in it. It allows AHFC to ask the agencies how long of a term of contract it can sign. Nothing goes forward until the AHFC board says this is a sound business deal, and the board votes on it. Right now there are a lot of interested people, but they will be able to make a commitment once there is the financing behind it. He said that the problem is it has been so theoretical, but without a specific project and authorization, how does it become real. That's what this does. It is very critical for the fisheries to be efficient and work together with all the research, management, and business development.

Number 1790

MR. BITNEY confirmed that the maintenance would be included in the contractual leasing.

REPRESENTATIVE WILSON commented that since the terrorist attacks, insurance for government buildings is horrendous, and there is no way to estimate that cost. If someone else owned the building, it would be his/her responsibility to have those insurance costs. She said it sounds really good but wants to be sure all the negatives have been explored, so the state isn't left holding the bag.

Number 1853

REPRESENTATIVE GREEN commented that one of the problems now is to try to secure the LIO, and it cannot be done unless additional space it doesn't need is purchased and the security is put in at the entrance. This bill would allow for a completely secure building, which would reduce the amount of cost. He commented that if those costs are going to be incurred by some other owner, they will be passed on [to] the renters.

MR. FUHS clarified that the documents provided by AHFC include maintenance and operation costs, and the money will be set aside for maintenance. It's based on the formula used at the Atwood Building, which is about 85 cents per square foot per year. About \$1.8 million a year is generated for maintenance in the Atwood Building.

Number 1984

REPRESENTATIVE FATE asked if this is going to make or break the World Trade Center or vice versa. He said it seems to him that two different concepts of use are being talked about.

MR. FUHS indicated that the exact purpose is to combine the government research and regulatory agencies with the business development side. He explained that the world trade center holds the license and is a franchise. There are 350 world trade centers all over the world. It's not going to make or break the world trade center financially. What it does make or break is pulling the fisheries and natural resources together with business development to make it work. The problem is a program efficiency issue of coordination between agencies. It's also an issue when people come in from out-of-town and everything is scattered all over. The Denali Commission is looking at putting money into this project, because people in rural Alaska need a

central focus for resources and fisheries. The commission sees it as a bridge between urban and rural Alaska.

Number 2072

REPRESENTATIVE FATE asked if this will be a world trade center that houses different parts of government.

MR. FUHS replied that it can be named anything the legislature wants. The idea is to put together a campus. This bill allows AHFC to own all or a portion of the building. It could be made into zero lot lines or condominiums, where people owned certain floors. It might even be possible there would be a federal appropriation to have some federal bill paid for as capital up front, and that part wouldn't be financed. This allows AHFC the flexibility to put together those pieces that make it work financially.

Number 2138

REPRESENTATIVE FATE asked if private organizations will find cheaper rent housed in structures that have had this tax advantage in construction through the bonding mechanism than they would find in the private market.

MR. FUHS answered no. The private portions of this will be privately financed; they would just be co-located in the facility. He explained that tax-exempt bonds cannot be used for private development.

Number 2170

REPRESENTATIVE STEVENS asked about the capital move issue and the timeline on the building.

REPRESENTATIVE GREEN said no one is being brought in who isn't already there except the people in Seattle. As Mr. Fuhs indicated earlier, people are not being commandeered from the Bush or Juneau. Representative Green agreed that it is true that this won't be done in time to satisfy the concerns regarding the LIO, which would require an extension of the existing lease - and that opportunity is available - but the LIO would rather have a year-to-year lease until this building was finished rather than another decade lease.

REPRESENTATIVE STEVENS asked if this is a subterfuge to move the capital.

REPRESENTATIVE GREEN emphasized that it is not intended to be. He reiterated that no one is being brought in who isn't already in Anchorage other than the people from Seattle. As far as he knows, this is in no way tied to trying to move the capital. He said he personally does not want the capital moved. He said he thinks that is a mistake.

Number 2300

MR. FUHS referred to the question about the timing and told the committee that the best-case scenario would be a building completed in two years, but three years is more realistic.

Number 2331

REPRESENTATIVE JAMES expressed support of this proposal even though she didn't hear all the testimony. She commented:

I think this is the kind of development that we can grow. I spent some time in Calgary, Alberta, and the mentality that's going into this process is exactly what they did to build themselves. If you hadn't been there 20 years [ago] and now, you'll see the tall, high buildings, and almost all of the oil industry is located in Alberta. That's not because that's where all the oil is, it's just because that's where they are because they were invited in ... [and] given really good opportunities to come.

Number 2379

REPRESENTATIVE JAMES mentioned that the airport in Calgary is the reason she filed a piece of legislation to have the airports in Anchorage, Fairbanks, and Cold Bay in a port authority which would be combined on one balance sheet and run as a business, as opposed to a state-operated facility, simply because she said she believes that Alaska should start competing with outside Alaska instead of within Alaska for these uses. She wasn't able to sell that to the Fairbanks folks, because they still don't trust Anchorage very much. Over time people have to understand that they live in a state, so, therefore, they need to cooperate. She asserted that Anchorage needs to be the economic center of Alaska because it is the only place it will work, but Fairbanks does have a role. If there can be a better relationship between the people in Anchorage and Fairbanks not

to be parochial about the issues but to be supportive of what is good for the state as a whole, they can get there.

Number 2429

REPRESENTATIVE JAMES emphasized that she is not willing to purchase or construct a state-operated facility without having the provision of maintenance.

Number 2606

MR. FUHS said one additional twist on the private space in the Atwood Building is that there is enough in there now that it doesn't qualify for the full tax advantage it could. If some of the private tenants could be put into the World Trade Center, there would be a substantial tax break on the Atwood Building.

REPRESENTATIVE WILSON asked how many legislators are in the building with the LIO.

REPRESENTATIVE GREEN answered there are 17 representatives and 9 Senators that have access to that building.

REPRESENTATIVE WILSON commented that she wasn't sure it was wise to have legislators in the same building as a world trade center, in terms of security.

Number 2700

REPRESENTATIVE FATE asked what strain, if any, does this place on the bonding capacity of AHFC.

Number 2715

MR. BITNEY replied that there are a number of different structures that the financing could take. Generally, Standard and Poor looks at the lease and the subjectivity of the appropriation. The AHFC's idea is to structure the financing so it gets the rate down as low as possible, realizing there has to be some risk of appropriation. The only fiscal note on this bill is the zero fiscal note from AHFC. However, if public agencies are going to come into the building, they would have fiscal notes for their lease payments, which would be used for the debt service payments, and those would have to show up in the budget somewhere down the road. Until the financing structure is established, he doesn't have a good answer to the question. He is just relaying some of the types of

considerations. Whether or not there would be additional general obligation capacity for AHFC to put towards this project, he doesn't know right now. That would be the ultimate in trying to drive down the cost of funds for this project.

Number 2832

MR. BITNEY noted that if it were structured to be just simply tied to the leases on the building and the appropriation risk of the legislature, that would not take as much "bonding capacity" or eat into their credit; however, the question would be to what extent not having that in there may increase a few basis points on the deal. Those are the judgment calls the corporation gets into when trying to figure out what's the best way to capture the lowest cost of funds.

REPRESENTATIVE FATE asked what this will do to the short-term bottom line of AHFC.

Number 2901

MR. BITNEY replied that he didn't believe it would hurt AHFC in the short-term because AHFC doesn't envision anything other than staff resources for putting the deal together. The only impact to the bottom line - because this is a separate function than the mortgage operations - would just be the diversion of the attention of staff from doing other things for some period of time. He added it was done successfully with the Atwood Building purchase. He commented that AHFC doesn't envision putting any of its own resources into this; it doesn't envision making any money. It's looking at the same kind of structure as the Atwood Building, where AHFC gained nothing from that financing, other than it was a service to the state.

MR. BITNEY responded to a question that the only affect to AHFC would be somewhere down the road if there was a default on the part of the lessors. He mentioned that payments had always been made on time in other projects.

TAPE 02-55, SIDE B
Number 3006

REPRESENTATIVE JAMES responded to the concerns about security. She commented that she has a bigger fear of earthquakes rather than terroristic activities. She assumes that this building would be built in a way to protect it from earthquakes as best as it can.

REPRESENTATIVE JAMES supported putting a world trade center in Anchorage. She commented that it is very important to focus the world trade negotiations and the marketing into one area of growth, as opposed to competing amongst each other [or] competing outside Alaska's borders. She said that Alaska has a lot to sell and would have a lot of buyers if it shows a united front.

Number 2908

REPRESENTATIVE STEVENS asked about the parking issue.

MR. FUHS said there have been preliminary discussions with Anchorage about that. The parking authority in Anchorage has paid off all its debts and could finance additional parking. That is another detail that needs to be worked through, he noted. He suggested a mass transit center that could facilitate carpooling should be looked at, and transportation planning around that area should be done.

Number 2858

REPRESENTATIVE FATE moved to report HB 533 out of committee with individual recommendations and the accompanying zero fiscal notes. There being no objection, HB 533 was reported out of the House State Affairs Standing Committee.

ADJOURNMENT

Number 2823

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 8:57 a.m.