



Alaska State Legislature Legislative Council Minutes

MARCH 17, 2014
5:00 PM

MEMBERS PRESENT

Representative Mike Hawker, Chair
Senator Peter Micciche, Vice Chair
Representative Mike Chenault
Representative Max Gruenberg
Representative Craig Johnson
Representative Lance Pruitt
Representative Bill Stoltze
Representative Peggy Wilson
Senator John Coghill
Senator Dennis Egan
Senator Charlie Huggins
Senator Kevin Meyer
Senator Gary Stevens

MEMBERS ABSENT

Senator Mike Dunleavy

OTHER MEMBERS PRESENT

Representative Alan Austerman, alternate member
Representative Doug Isaacson
Representative Les Gara

AGENDA

APPROVAL OF MINUTES
RATIFICATION OF CHARITY EVENTS
OTHER COMMITTEE BUSINESS

SPEAKER REGISTER

Wayne Jensen, Jensen Yorba Lott, Inc. and Project Architect on
the Capitol Building Restoration
Mike Buller, Deputy Director, Alaska Housing Finance Corporation
Juli Lucky, Staff to Representative Mike Hawker and Committee
Aide to Legislative Council

5:06:04 PM

I. CHAIR MIKE HAWKER called the Legislative Council meeting to order at 5:05 p.m. in room 519 of the State Capitol. Present at the call were Representatives Hawker, Chenault, Johnson, Pruitt, Stoltze, and P. Wilson; Senators Micciche, Coghill, Egan, Huggins, Meyer, and Stevens. Representative Gruenberg joined the meeting at 5:14 p.m., during the discussion of the Alaska State Capitol Seismic Retrofit and Exterior Renovation.

CHAIR HAWKER noted for the record that Representative Austerman, Legislative Council alternate member for the House, was present, as well as Representatives Isaacson and Gara.

II. APPROVAL OF MINUTES

5:08:22 PM

VICE CHAIR MICCICHE moved that the minutes from Legislative Council meeting of February 27, 2014 be approved as presented.

The motion passed with no objections.

III. RATIFICATION OF CHARITABLE EVENTS

CHAIR HAWKER stated that his office confirmed that the following charity events are held on behalf of 501(c)(3) organizations in good standing and that, as allowed under statute, he has previously sanctioned these events and they are now before Council to be ratified.

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VICE CHAIR MICCICHE moved that Legislative Council ratify the following charity events, which were previously sanctioned by the Legislative Council Chair in accordance with AS 24.60.080(a)(2)(b):

- a-c. Kenai River Classic, Kenai River Jr. Classic, and Kenai River Women's Classic all benefitting the Kenai River Sportfishing Association;
- d. Beyond the Stacks benefitting the Friends of the Library;
- e. Legislative Skits benefitting Big Brothers Big Sisters; The Association for the Education of Young Children, Southeast Alaska Chapter; and AWARE;
- f. JACC Wine Tasting benefitting the Juneau Arts and Culture Center; and
- g. Midnight Sun Charity Shoot benefitting the Outdoor Heritage Foundation of Alaska.

The motion passed with no objections.

IV. OTHER BUSINESS

a. Alaska State Capitol Seismic Retrofit and Exterior Renovation

CHAIR HAWKER stated that there were two items of very significant business before the Council tonight. Both items are some of the most significant decisions faced during the entire legislative session. The first is the Capitol Seismic Retrofit and Exterior Renovation. As discussed at the last meeting in executive session, he said he would do his best to put some parameters on the record. He said his approach to this meeting is to discuss both of these projects, the Capitol Envelope and the Anchorage LIO, and then Council may take up motions should the committee choose to do so after that discussion.

In executive session, it was discussed that the Capitol Seismic Retrofit and Exterior Renovation project involves a complete removal of the exterior of the Capitol and replacement with modern materials. As everyone knows, this building is crumbling. The previous Legislative Council had a restoration architect engaged who did a complete study distributed to the Council in early 2013 documenting the degree of deterioration and that this building is literally at risk of, in a seismic event, having the fascia, the sides, collapse. Employees have witnessed large chunks of the parapets lying on the ground in the morning when they come to work. Many have heard the anecdote of Senator Stedman's staff coming to work last year and having a rather large chunk of concrete drop in front of him. The Capitol is 80 years old; it's made of sandstone, which absorbs a lot of moisture and it's literally crumbling around us. The question is: What do we do with our Capitol Building?

This Council previously approved work on the portico; the money that had been appropriated was used to stabilize that last summer. Everything, including the steps, was removed.

[5:13:45 PM](#)

The engineers and construction crews found that the supporting structure had deteriorated to the point that the steps were just balanced and tippy. They excavated underneath the Capitol itself and discovered approximately 120 floor joists in the building were crumbling. The next step was to go out for bid for a construction manager/general manager to work with the architect and engineer to put together a final cost estimate to do the seismic retrofit and exterior renovation of the Capitol Building. Both the architect that was hired out of Seattle a year ago and the current architect doing preliminary cost estimates had estimated it to be about a \$23 million project. Wayne Jensen and Gary Hovdy, project manager with Dawson

Construction Inc., who were engaged by a vote of Council to put together the cost estimate on doing the whole project, are present today. Chair Hawker stated that, about two days before the last Legislative Council meeting, he learned, much to his trouble, that the estimate was not \$23 million but closer to \$33 million. This was presented during executive session at the last meeting.

Council directed Mr. Jensen to take some time to develop proposals on what options it might have. Chair Hawker invited Mr. Jensen to speak to the committee with regard to that task.

REPRESENTATIVE STOLTZE reminded members that, at a previous meeting, he proposed and Council passed an amendment that would focus the improvements on life, safety, and structure. He said much of those issues were discussed in executive session. He thinks it would help the public record if this issue were further delineated. There were past renovation efforts that were less than life, safety and structural. He said he wanted to amplify or clarify that the intent of Legislative Council is that these improvements were things that were really important for life, safety, and structure. He asked if it was a fair characterization that these have been the criteria of all these improvements.

CHAIR HAWKER said he thinks it's a very significant part of this. He knows for a fact that we are in a situation where we are aware of the problems with this building. He has heard from other counsel as well as our own that the Legislature would be highly exposed to liability claims if we don't do something about the building's exterior.

REPRESENTATIVE STOLTZE said he was trying to amplify that this is not a "bells and whistles" type of project. Everything he's seen from Mr. Jensen has been things that were life, safety and structural issues. There have been criticisms in the past about some of the attempts to do more of the aesthetics and this is far from that.

CHAIR HAWKER said he would very much agree with that characterization. There was agreement that anyone interested could look at the historical record of the motions passed by Council with regard to this project. He then asked Mr. Jensen to give a recap of where we're at with this project.

WAYNE JENSEN, with the architectural firm of Jensen Yorba Lott, Inc. in Juneau, said that the Chair's characterization of the project was very accurate. In response to Representative

Stoltze, the structural work is the driving force behind this project.

CHAIR HAWKER interrupted to ask that Mr. Jensen flesh out the point that Representative Stoltze brought up, specifically to talk about the columns out front and the structural work that was necessary there.

MR. JENSEN said that the work done last summer on the portico was primarily to stabilize that portion of the building. That was targeted because that was the area that they felt was in the worst condition and was in the most vulnerable location, being the front door to the Capitol. The stone was deteriorating and that was where the piece of stone fell in front of Senator Stedman's staff. What we had on the portico was a series of stone blocks that were stacked on top of each other. They weren't adequately attached to each other so that, in the case of a seismic event, there was a high probability of displacement of those components. The columns in front had three sections, each about seven to eight feet high and about four and a half feet in diameter that absolutely weigh tons. They were only held together by a small ring that was in their center. It was just gravity that was holding them there. In an earthquake, gravity is actually one of the worst fears because as things start to shake laterally, heavy things tend to fall over. Those columns are some of the heaviest things in the building. Besides restoring the crawl space work and fixing some of the joists, we drilled a hole down through the middle of all of those columns and anchored them to the foundation with a reinforcing bar; so they are no longer just sitting on top of each other, they're actually tied into the foundation. To couple that, we poured concrete beams from the top of the columns, between the columns, back over to the building and then new concrete down the side of the building; and reinforced the foundation, so everything is now tied together in a loop from the foundations all the way up to the roof and down through the column. That's kind of the same approach that we're looking at for the rest of the building in that the building is a concrete frame.

He said even though all you see on the outside is brick and stone, the actual structure of the building is concrete - concrete columns, concrete beams, and concrete floors. The columns are connected to the beams in sort of a post-and-beam configuration; but because they didn't understand how to resist lateral forces 80 years ago, they aren't connected well enough to resist the lateral forces that are imposed on a building by earthquakes. To ameliorate that problem, we're planning on putting concrete shear walls between the columns and between

the floors to stiffen the building and spread those lateral forces across the entire face of the building rather than concentrating them at the connections between the columns and the beams, which is the weak point in that type of construction. In order to do the structural work in the walls, we need to remove the brick facing and the windows to get back to the concrete structure. It just happens that the brick is old and in bad shape anyway and so, in doing this concrete work, we're able to restore the exterior of the building - replacing the windows, replacing the brick and, because we don't need all that brick anymore (currently four layers of masonry thick when we only need one), we can replace that with concrete shear walls and some more insulation so that not only do we strengthen the building structurally, we add some energy efficiency as well.

CHAIR HAWKER said he wasn't here to sell this project, but anyone that wants to see the problems with the brickwork should go down the hall and look out the window just past his office on the left toward the Senate Finance Chamber and one can see where this brick is literally exploding out of the walls from the moisture that's been absorbed into it. He said this was brought to his attention a year ago as he took over this committee, he has watched that wall go from about two bricks that were kind of peeking through to a wall right now that is just covered with exploded bricks. It's been a profound experience, watching that happen.

MR. JENSEN said the deterioration of the brick and the stone throughout the building is certainly getting worse and the possibility of some of that material falling off increases as the years go by.

CHAIR HAWKER asked Mr. Jensen to segue into the original cost estimate and the revised cost estimate.

MR. JENSEN said the original cost estimate was in the \$23 - \$24 million range. We selected a construction manager/ general contractor several months ago and their goal was to look at the sequencing - how we could best approach this project from a sequencing standpoint stretched over three years - but also to verify the actual cost; the first one was an estimate, the second one, that we're working on now, is actual costs. We're actually going out into the market, getting bids from suppliers and subcontractors to do the work; and we're getting two, three, four bids in the marketplace to do the work. The CM/GC process limits the amount of work that the CM/GC can do with their own work so that 70-80 percent of the work will be awarded to subcontractors or suppliers. In doing that, that's

their construction manager role in the process - to find out what the actual cost is and then to manage that process throughout the construction.

CHAIR HAWKER said that the award of those costs had to come back before Council, which is what we are gathered for here tonight.

MR. JENSEN said that at the last meeting it was made clear that the cost was going to be significantly higher. He said they've identified several value engineering or cost-saving opportunities but in order to determine those are feasible, we need to do some more exploration. He said we're coming back to you now with a proposal to reduce the amount of work that's being done in the first construction year from what was originally intended, and to concentrate more on exploration in the building to see whether there's opportunities that we can explore to save money and still achieve the same purpose. The underlying purpose is the seismic retrofit - there's no question that there's no compromise to that - and to restore the exterior of the building to essentially its 1931 appearance and quality.

CHAIR HAWKER noted that it rains fairly frequently here and when it does, his office gets a puddle in the floor due to the quality of the windows throughout the building.

MR. JENSEN said the first priority is to get the structural work completed. Associated with that is increasing the insulation and repairing the envelope of the building; replacing the heating system, which has 80-year old pipes that are very corroded; increasing the controls of those systems so that it is easier to maintain climate control in the rooms; and then refurbishing the exterior of the building. These are all associated, but the driving force is the seismic work.

CHAIR HAWKER said that Mr. Jensen's three page formal recommendation is included in everyone's packet. He said Council has a choice here and it's truly a committee determination. If we choose to go forward with the project, the scope has been reduced and there is a \$5.8 million work plan for this immediate summer. He asked Mr. Jensen to discuss the limited scope, what he hopes to do if the \$5.8 million is awarded, and to describe the long range plan.

MR. JENSEN said the original proposal was, in the first summer, to do the demolition and structural work on the Main Street side of the building, the back of the building and go into the courtyard. In the second year, they would have continued the

demolition and structural work on the east wing as well as the finish work on the west wing (Main Street). That was a fairly significant amount of work for that season. In order to allow more exploration time, instead of committing to all that work in the first season, they would concentrate on just the Main Street/west side of the building - demolition, structural and exploration - and structural work on the two in-fill areas on the courtyard side of the building to create new space. By reducing the scope of work and concentrating on the opportunities for cost-saving in future years, the intent is to come back to Legislative Council later in 2014 with the findings of the investigation and revised costs for the rest of the project - the next three years. He reiterated the time frame remains the same and that the project will be complete in 2016. It will mean a little more work to be done in 2015 and 2016, but by doing the work now proposed for 2014, they think they can potentially eliminate a few bottlenecks in that work and increase efficiency. The total cost for this new proposal is \$5.8 million and that will do the structural work on the west side of the building. In 2015, the finish work on the west side will occur and then continue on around the building, completing the south side/front of the building in 2016.

CHAIR HAWKER said the completion schedule for that work beyond 2014 will depend on the availability of funding and that will also contribute to driving the schedule and determine whether it is a two, three or four year project. That's something that the finance committees have the ultimate authority over.

MR. JENSEN, in response to a question from Vice Chair Micciche about the significant deterioration of the floor joists in the Capitol, said that floor joists in the crawl space were repaired in 2013. There are still some beams and foundation work to be done, a good deal of which will be done in conjunction with the seismic work on the exterior walls. The reason that the joists in the crawl space were deteriorated was due to the moistness of the area; because it was wet all the time, the reinforcing steel started to corrode and when it corrodes, it pops the concrete out. He said they haven't seen that anywhere else in the building because it was dry, and they are sure it was a situation unique to the crawl space. The 120 joists mentioned by Chair Hawker were repaired; there are still some beams that need to be repaired, perhaps 15-16, but for the most part those are not as significant as the joists. There are a couple that are very significant and those will be repaired/replaced this summer, but not as extensive as the work last year.

VICE CHAIR MICCICHE followed up to ask if, of the joists and beams being replaced, there would still be carbon steel as a component.

MR. JENSEN confirmed that was the case. He said the reinforcing found in the joists was, for the most part, able to be salvaged and maintained. There were a few reinforcing bars that were corroded beyond a certain percentage. A new reinforcing bar was spliced in and then covered with concrete. They cleaned the reinforcing bar, cleaned the rust, installed a rust-inhibitor and then sprayed concrete over the reinforcing bar to protect it into the future. They also provided drainage, after excavating much of the wet material in the crawl space, so the space will stay dry. That addressed one of the problems that existed in the crawl space. There is still some work to be done with some additional shear walls in that area and some work on the exterior of the crawl space associated with the structural work above.

CHAIR HAWKER said he was reminded of a presentation done by Mr. Jensen that discussed the stability of the whole building. Core drillings were done all around this building and it was his understanding that the building foundation is very sound, sitting almost on bedrock.

MR. JENSEN confirmed that a change was made in the original construction, based on what was found at the time, to extend the foundation down 12-15 feet to a very, very hard layer of glacial till. The glacial till is essentially like natural concrete and is compacted over thousands of years. It's very dense and the building foundations extend down to that layer. If the original builders hadn't had the foresight to do that, the original building probably wouldn't have been around for more than 10 years.

CHAIR HAWKER said he brought that up for two points. One is that he is convinced the building is worth making an investment in because it is on solid footings. Secondly, he included an article in each member's packet about the Wyoming State Capitol Building. In many ways, if one replaced Wyoming with Alaska, there are many similarities except that the state of Wyoming, just this year, appropriated \$259 million to halt the decay of their Capitol Building. Frankly, when he is looking at a \$35 million spend on this one, he struggles with it, but doesn't feel quite so bad. In Wyoming, the building is literally cracking and there are major interior structural issues that Alaska's Capitol doesn't experience. It's not an apples-to-apples by any means as Wyoming is also doing major interior renovations not being contemplated here. It is an interesting

perspective. In discussion with Pam Varni, noting her interaction with her counterparts in other states, aging Capitols in America are endemic. Receiving confirmation from Ms. Varni that his understanding was correct, restoration maintenance work that is currently underway or needed is in the billions of dollars across the country. He said he offered that anecdotally that Alaska is a small part of that, but it's nice to know we're not alone in this.

MR. JENSEN said that by doing the seismic work now, Alaska is being proactive. In the case of Washington State, they were reactive. An earthquake actually damaged their Capitol Building, forcing them to do millions of dollars' worth of reinforcing and retrofit work. Utah was able to do their seismic retrofit ahead of time which prevented damage to their building. Nebraska, Wisconsin, Wyoming and California, in addition to other states, have undergone significant renovations over the last 10-20 years as they are all getting very old.

Mr. Jensen, in response to a question by Senator Stevens about the status of the heating system, said that is one of the advantages of an associated project. Because they are going to be tearing out the walls and reinforcing the building structurally, they will be able to replace the heating piping, which is 80 years old, black steel and is undoubtedly corroded as well as the cast iron radiators. When they rebuild the walls, the heating system will be replaced with a modern system and controls so that each suite will have its own controls and be able to do a better job of maintaining the environmental conditions inside the building. A few years ago, the boilers were replaced. Right now, they still provide steam to the existing system. As the building is renovated and the heating system is replaced, the system will be converted to hot water. At the end of the project, the boilers will be converted to hot water. Hot water is an easier system to manage and control. That wasn't a driver for the project but it almost has to be done because the piping will be torn out in order to do the structural work.

CHAIR HAWKER, noting that there were no further questions, thanked Mr. Jensen for his time and moved to address the Anchorage LIO.

b. Anchorage LIO

CHAIR HAWKER said he was going to take the floor to walk Council through the timeline of the Anchorage LIO facility, describing how we got to where we are, where we are and what is

today being brought forward by Alaska Housing Finance Corporation. A hard copy was distributed in each member's packet and appears below. He further noted that he would bring up all motions at the end of the discussion.

Anchorage LIO Facility Timeline

Prepared by Rep. Mike Hawker's Office

March 17, 2014

Prior to January 2013:

Current lease, signed in 2004, had an initial term of five years with five optional one-year renewals.

The following procurement efforts, undertaken while the Anchorage LIO was located at the current location, either resulted in staying at this location or were ultimately unsuccessful:

- Five Requests for Information (RFIs) on alternative leasing options.
- Two Requests for Proposal (RFPs).
- Proposed partnerships with other public entities to build new facilities, including the Court System, Department of Administration, Mental Health Trust, and Anchorage Community Development Authority.
- Most recent effort was to purchase and renovate the old Unocal building.

Status in January 2013, when Representative Hawker elected Chair of Legislative Council (LEC):

- LIO lease has one, one-year renewal option remaining, expiring on May 31, 2014.
- No resolution, or proposal for resolution, for Anchorage LIO facilities beyond the current lease either active or in process.

February 2013:

- Chair appoints LEC subcommittee to explore LIO options.

May 2013:

- Last one-year renewal option exercised.
- Public RFI issued looking for leasing options-two responses were received, both were determined by LAA to be inadequate to fulfill LIO requirements.
- Landlord presents formal proposal to renovate building and extend lease.

June 2013:

- LEC authorizes negotiation and conclusion of lease extension on current facility, with renovations proposed by Landlord.

August 2013:

- Lease extension details presented to LEC in executive session prior to execution of lease modification and extension.
- LEC authorizes chair to commence attempt to negotiate purchase option in addition to lease extension.

September 2013:

- Lease modification and extension completed on terms presented to LEC on August 23, 2013.

October - December 2013:

- Inconclusive discussions held with landlord regarding property purchase.
- Landlord unwilling to take income tax penalty associated with property sale.

January 2014:

- Chair approaches landlord with conceptual proposal for purchase of partial interest in building "ownership entity" as opposed to outright purchase of entire property; landlord accepts in concept and negotiations commence.
- LEC counsel, AHFC, AHFC consultants, and Landlord's counsel recommend the following clear demarcation of physical ownership interests:
 - State owns LIO building.
 - Landlord retains ground and parking facility ownership.
 - Long-term ground lease with state holding renewal and purchase options at Fair Market Value.

February 2014:

- Non-binding MOU signed and presented to LEC.
 - AHFC to purchase LIO building.
 - ◆ Price to be negotiated, but will be for cost of improvements only.
 - ◆ Price will be below AHFC estimate of actual building value.
 - AHFC to take long-term ground and parking facility lease, with renewal and purchase options.
 - LAA will sub-lease building, ground, and parking facility from AHFC at cost of ground and parking facility lease, plus any directly related obligations retained by AHFC.
 - Subject to authorizing legislation and funding.

March 17, 2014:

- Final building purchase proposal presented to LEC for approval.

Details of Building Purchase Proposal:

- Landlord retains sole responsibility and risk for completing the building renovation and obligation to deliver premises at a fixed, below market cost.
- AHFC owns 100% of building and tenant improvements.
- AHFC enters into a 40-year ground and parking facility lease with one 20-year renewal option (60 years total):
 - AHFC option to purchase the ground and parking facility at fair market value after 20 years and each 5 years thereafter.
 - If purchase option not exercised, lease rate to be re-determined at fair market value at year 21 of lease.

Benefits of Purchase Proposal:

- AHFC assumes 100% ownership of building for \$28,250,000.
- Total annual occupancy cost reduced from current lease of approximately \$4,000,000 to approximately \$1,625,000 per year, \$135,000 per month, resulting in a cost reduction conservatively estimated at \$2.4 million per year for first 20 years. The new occupancy cost is in the same range as the anticipated cost would have been to renew the old building and parking facility 'where is, as is' with no improvements.
- Long-term solution resolving major LIO facility issues.
- No ongoing procurement or renegotiation required.
- Landlord obligated to fixed terms on ground and parking facility with no provision or ability to escalate cost for 20 years.
- Landlord obligated to sell land and parking facility to AHFC at fair market value on a fixed schedule.

Chair Hawker noted that this new occupancy cost is actually in the same range as what he estimated the cost would have been to renew the old facility without any improvements under current market conditions, which would have been about \$75,000+ for the building itself and, as he has become painfully aware of the cost of parking in downtown Anchorage - \$600 per month for a reserved dedicated spot currently - \$60,000 for just the parking facility at fair market value which is a prime parking location. If we're willing to buy the building, the ongoing carry is about what it would have cost to renew a lease for the where-is, as-is facility.

With a mention that Legislative Council member Senator Meyer has always been concerned about preserving the Anchorage property tax

base, Chair Hawker said that by the landlord retaining the parking facility and ground, we estimate that the municipality will actually have an increase in property taxes over what the entire property is paying currently because everything is remodeled to ensure the parking facility is secure and safe for employees. It's a win for everybody. Truly, this is a situation that involves resolution of major facility issues; future Legislators will not have to deal with future long-term procurement and renegotiation in the immediate future; the landlord is obligated to fixed terms on the ground and parking facility with no provision or ability to escalate the cost for 20 years; and we've got a fixed obligation to sell the land and parking facility to AHFC at fair market value on a fixed schedule.

Chair Hawker asked Mr. Buller to join the ongoing conversation in order to answer any questions members may have.

[6:11:31 PM](#)

MIKE BULLER, Deputy Director of Alaska Housing and Finance Corporation, put himself on record.

Chair Hawker thanked him for his counsel and ongoing help through this process.

VICE CHAIR MICCICHE asked if the \$1,625,000 per year for the ground lease fee is essentially \$100,000 per month for the ground and \$35,000 for operating, it sounds like. At \$1,625,000 plus the purchase price, we own the building and operate for 20 years for \$60,750,000. Mr. Buller said, with the inclusion of the purchase price, that was correct.

Vice Chair Micciche followed up to say that had we simply leased the building at \$4 million per year, it would have cost approximately \$80 million for that same period. Mr. Buller said that was correct. Vice Chair Micciche said so owning the building saves us \$20 million over 20 years or \$1 million per year, and asked for confirmation. Mr. Buller agreed.

CHAIR HAWKER interrupted to say that he does a different calculation on that. He said the gross cost reduction is really about \$2.4 million per year for those 20 years, which is a \$48 million reduction.

MR. BULLER agreed with the Chair and went on to say that was actually a very conservative number which assumes that after the 10-year lease that we're currently under, that there is no increase in the lease. Realistically, when the lease runs out, he

thinks the landlord will try to negotiate a higher rate than that.

VICE CHAIR MICCICHE said that, so nominally, we've just got a \$1 million on the purchase and the basic lease fee. He asked for an explanation for the difference between \$1.6 and \$2.4 million being cited as gross cost savings.

CHAIR HAWKER interrupted Mr. Buller's response to his staff to distribute a data point sheet to go over.

VICE CHAIR MICCICHE asked the Chair to walk Council through the data point sheet.

CHAIR HAWKER said the sheet, which he personally prepared, including the footnotes, and which Mr. Buller and many others have looked at, shows the building purchase price proposal of \$28,250,000, which is the cost of improvements. We get the whole building for just the cost of improvements and those numbers will be audited by AHFC's project auditor and the landlord's interim construction financing banker. The next category is the occupancy costs, which we are obligated to pay under the lease that was executed in September 2013, the one that prompted us to pursue a purchase option. He reemphasized there was really no legal option available other than to pursue a lease renewal until now as we sit in session. The original budgeted annual lease was \$3,379,000 - \$281,000 a month on the schedule. The original estimated annual operating costs of \$645,344 was based in part by considering the banker's estimates, the developer's estimates and AHFC's contracted appraisal people looking at it - this number is what we ended up with in our operating budget and is a little bit at variance with the appraiser's estimates. It was what was in our current operating budget in order to come up with a round number of \$4 million in the budget. This is what we were truly looking at having to pay under the original operating lease and was the thing that was unacceptable to all of us.

If we choose to purchase the building, we have a ground and parking facility lease - a long-term 40 year lease with a 20 year extension - of \$1,200,000 that is a fixed, non-escalating cost; the estimated annual operating cost at a high estimate of operating the building, soup-to-nuts, including managing the parking facility, of \$425,000, for a total of \$1,625,000. The difference between those two numbers is the \$2.4 million annual cost reduction. He said he would be the first to tell everybody these numbers are approximated to the best of a lot of smart people's ability to determine them; they're done to be conservative where we don't know them to be exact, which is where we're getting to a conservative estimated annual cost reduction

of \$2.4 million a year. Back-checking that \$2.4 million, what's driving it is a \$2.1 million elimination of those third party costs of the debt service that's inherent in the current landlord's financing transaction; a \$300,000 mid-range estimate of what we will not be paying in property taxes; and the four numbers at the bottom of the sheet. These include the gross dollar reductions over 20 years of \$48 million; cash-on-cash return in years on it, basically \$2.4 million a year returns our \$28 million in a little under 12 years; and, perhaps the most relevant number in this dialogue, is the ~\$30 million, which is the present value of that \$2.4 million in savings over 20 years at basically the current commercial financing rates of five percent, which is another way of triangulating where we're at on our purchase price. We're looking at the present value of the cost-avoidance that even exceeds the purchase price today. We've got a positive NPV on making this investment. The last number is anecdotal - the \$1.6 million is a back-of-the-envelope estimate of where the landlords will be if we did just a straight-up renewal of the existing lease looking at what the market value of the core was and then a hell of a fight over the value of that parking facility, which they know what that's worth. The parking facility alone is worth as much as we were paying for the whole building at the end of our last lease. That is turning into tabular form the numbers being discussed on the other page. He asked if that helped Senator Micciche with his question. Vice Chair Micciche said it helped a lot.

CHAIR HAWKER said that what the next question gets into, and it's a dialogue we've got to have at this Council meeting, is funding. That's the big issue. He said he has put in a lot of time and effort looking at our legislative budget, spent a lot of time working with the good folks at LAA, who have dutifully been putting aside capital money for legislative facilities. Admittedly, it's largely been anticipated for the exterior of the Capitol, but we do have facilities requirements across the state, including the opportunity to make this purchase. We have, using round numbers, sitting over at the LAA today, about \$23 million of capital; we're looking at a lapse coming out of the current fiscal year 2014 of \$10 million; if our finance chairs work with us and allow that lapse to be used for facilities, we've got enough money to do either the Capitol exterior or the Anchorage LIO, but not quite both. If our finance chairs would give us another \$10 million this year and work with us into the future to basically maintain a level of lapse, provided we carefully manage our funds and don't end up with one of those years that are the reason we keep that cushion in our legislative budget - we all remember the years we had three special sessions back-to-back, we spent \$5 million on consultants - if that doesn't happen, we can do the \$35 million high-end Capitol renovation and buy and

furnish the LIO completely without asking for any further appropriations. Again, that would require, however, a \$10 million appropriation in this year's budget and maintenance of our ability to continue lapsing funds into the future until we get both projects done. The Chair noted for the record that the money is in the legislative budget every year because we don't know what we're going to encounter in any given year - we can have three back-to-back special sessions and those things can run \$1.5-2 million apiece if they get expensive. We've seen years where we've spent \$5 million in consulting fees to support those kinds of special sessions. He said there is a pretty good chance we could manage our way through both projects with the single \$10 million appropriation this year. So, if the Council wants to pursue the \$28,250,000 for the Anchorage LIO in addition to accepting the CM/GM's \$5.8 million proposal to make the next step on the exterior of the Capitol Building, he would ask for your blessing to take the gravitas of this committee and go to the finance committees, who at the end of the day will ultimately be able to say "yea" or "nay" to whether to do this project. All we can do is ask the finance chairs; we cannot tell them what to do. The other thing that we will need to do to make the LIO project happen, is Mr. Buller can't buy that building until he has statutory authority, so we would also be asking tonight for your approval to have the Rules Chairs introduce, by request, legislation authorizing AHFC's purchase of the Anchorage LIO in that amount not to exceed \$28,250,000 subject to funds being made available. This gets us full circle to all the questions on the table.

SENATE PRESIDENT HUGGINS said he was from Meadow Lake, that little red-neck area between Big Lake and Wasilla, and said we own this building here and there have been a lot of people come through here based on the history. He said the two projects are completely different: this (Capitol) is an anchor here, to use a local term, and the variables involved are different. The Chair broke out, and he celebrates the choice to "phase" this and Wayne Jensen described what that meant, which gives some parameters.

He said the LIO is a different critter. When the Chair mentioned purchasing it, he was supportive of doing that because it's an alternative. He said he has read some news accounts that have characterized it as "your LIO" (Hawker's LIO), this is "our LIO" and he takes full responsibility for what we've done or haven't done over time because it was "we" not "you." On the other hand, because, as the process was described of money and then legislation in the Senate, he sees six Senators sitting here, which is a minority amongst the Senate majority. In the LIO's case, he would like seven working days, for the Chair and the Vice Chair, who is also a Senator, to be able to educate our

Senators on what's involved in the LIO. In his estimation, the Chair would have an answer back not later than March 26 from the Senate, which would allow roughly a month to be able to do legislation which is well within the capability of both the bodies if we choose that course of action. This is not a critique; what is being proposed is within the state of the doable and our motivation. He said he wants to make sure that when he and others here in the Senate obligate their fellow Senators saying you're going to see a process whereby you're going to cough up money for the LIO and, oh by the way, we want you to support legislation or entertain it, he would rather take that seven working days and make sure it is much more valid rather than the minority of the Senate sitting here saying we think that would be okay.

CHAIR HAWKER said he was very happy to accommodate that request as he has talked to any number of the Senate members but there have also been other members of the Senate who have been rather busy and occupied on other things the last week.

With that, he said he is not going to bring anything to a vote at this time and we will put together a meeting in about a week.

Chair Hawker said there was one more item of business and asked Ms. Lucky of his staff to come forward. He said the Vice Chair wanted an update on the furniture procurement under the existing process as we're doing. He asked Ms. Lucky to speak to this issue.

JULI LUCKY, staff to Legislative Council and Representative Mike Hawker from District 27, said she wanted to put on the record where we were with the RFP process for the furniture integration proposal and also the concurrent survey of existing furnishings in the Anchorage LIO and answer any questions people might have about the process.

She said, as you know, the Legislative Council did take a vote on the proposal in our November 2013 meeting. In January, we did sign an agreement with KPB Architects to provide the furniture integration services for an amount of \$76,242, which was under the not-to-exceed amount of \$100,000 approved by the Council. KPB Architects has been working with our LAA staff to come up with a Request for Proposals (RFP) that will allow Council to choose how much furniture they buy at the time the RFP will be presented. The furniture integration portion is the architects designing how the furniture goes into the building, putting out specifications for the furniture; that will be given to LAA to then put out an actual RFP that we will be getting bids back. Concurrently, she is working with LAA Supply to come up with a very comprehensive

list of what we currently have in Anchorage storage and also what is being used in the temporary facilities; the dimensions of that furniture, what of that furniture can be re-used, and the condition of that furniture. The plan is to present both of those documents to Council at the May meeting so that Council can then make an informed decision should they wish to purchase. We won't necessarily be coming up with an RFP that has a certain dollar amount for a certain amount of furniture. What they are asking for is basically a breakdown per piece depending on what we would buy, and how many pieces so we're not on the hook through the RFP for buying anything or 100% or 50%, the intent is that both documents - the survey of current furniture and the condition and also the RFP showing how much new furniture would cost per piece - would be brought to Council at the same time so that an order could be made should Council wish to order new furniture at that time.

CHAIR HAWKER said he would like to correct something he has seen grossly misstated in the media that in some way the landlords were involved in this furniture procurement. The answer is no, not in the least. This was work with the architect firm and had nothing to do with our landlords. What they are doing in working for us is putting together this RFP that will go completely open to the public. It will be a very open RFP, there is nothing specified as far as specific products, names or otherwise. We are looking to define the requirements so that it can be a completely open response from any vendor anywhere in the universe that wants to reply.

VICE CHAIR MICCICHE said the \$76,242 is essentially a design contract for understanding the quantity of space we're likely going to be furnishing as well. Just to help the public understand, we're talking about roughly how many offices?

MS. LUCKY said she believes that with the redistricting there are 26 Anchorage Legislators. We also house the Ethics office; we house Information Services offices that service basically every office outside of Juneau; and obviously the Anchorage LIO staff themselves. Chair Hawker added we also house other people from around the state and various regions who desire space in this facility for both staff and for themselves - there are quite a number of rural Legislators who believe they need Anchorage office space. Ms. Lucky added that it is a furniture design and integration proposal; the architects are also working with technology group here at LAA and technology folks in Anchorage to make sure that the wiring is correct for what we need - video teleconferencing, teleconferencing - all of that technology is also included; it's not just furniture integration.

CHAIR HAWKER said he would also like to debunk another comment that was made recently. Office space is standardized in the new facility proposal. There are two standard size offices and the difference has been dictated by the structure within the building. The larger offices, which is half the building, will be 23.8% larger than the smaller offices; well within the 30% that was argued publicly, with the exception of leadership suites of which there are four, and are larger to accommodate the needs of leadership members. The building is being designed without amenities. The only amenity that he can think of is a shower and changing room in the basement, because we've been working to encourage healthy lifestyles and people that want to get out either on their way into work or during their lunch hour, that is truly a minimal cost item. We specifically denied requests to include kitchenettes, any kind of lifestyle amenities, no cafeterias, no dishwasher, nothing that is normally part of a contemporary office building today. Quite frankly, the public does not want public employees to have those things and we don't have those things in this building. We are going to be looking at eliminating every Legislator having a "sleeping couch" in their office. There will be tables and chairs to work; offices are not for sleeping, they're for working. Leadership can do what they want, but the rest of the members will have a desk, a table and four chairs. The design focus is utilitarian, durable, functional and as low maintenance as possible without frills and amenities.

VICE CHAIR MICCICHE said his goal was to inform the public. This is a large project. When you're running a household or small business and you hear the cost of this design and integration study, it sounds high, but we're talking about a major office building and hundreds of pieces of furniture; it's a major undertaking. His goal was to help folks understand the immensity of the project and hopefully we'll keep with these status reports when we understand the specs and what a purchase order might look like, just to keep folks involved. The scale is difficult for folks to appreciate and he thinks it is the job of Legislative Council to help them understand that scale.

SPEAKER CHENAULT said that, as we have watched this process develop over the summer and last number of years, we as Legislative Council need to take some of the hit for our actions. It's been unfortunate that the Chairman of the committee has taken the full brunt of not only the public's voice, but also of our news folks that get that information out. The majority of us, as he looks around the room, have been the same members that have sat on this Council; and we have done Alaskans a disservice by not addressing the issues and continuing to put them off over the last eight years that he can think of. So, we get into a point where we are boxed in, the Chairman does, at our bidding, what

we've chosen him to do and now he's come back with what the Speaker believes may be an answer to the question. All of us have different issues. Senator Meyer would rather the building be on the tax rolls and the State of Alaska paying the City of Anchorage for the taxes. Personally, he would rather see the State of Alaska buy the building. When we make a purchase like this, of this magnitude or any other project, he thinks that we ought to own the building. He said he has a hard time thinking we're going to pay rent for something, that we're going to pay rent forever, when we can own it, and at the end of the day, at a lesser cost than what it would cost over time without owning it.

He said the House would do the same as Senator Huggins and have those conversations with his members over the next week to determine if there is support to move either one of these projects forward. He said that if we're going to continue to be in the Capitol, we need to have a safe building, whatever that cost happens to be. If we don't think this building's safe, then we need to make the decision to build another one. Addressing Senator Egan specifically, he said he doesn't mean outside of Juneau. The same in Anchorage: if we're going to have an LIO that meets the needs of not only the Legislators that live there but those that come through there, and also the public, then we need to have a building that does all those things. He said he supported the Chair and that he would take the hit for anything that we've done here and he isn't bashful about it.

REPRESENTATIVE STOLTZE said he appreciated the delay, appreciated Senator Huggins bringing it up and as amplified by the Speaker. The reference of the co-chairs, we're a part of the decision making process, but the two operating budget chairs who organizationally lead the operating side of the budget where the lapse would need to occur need to be consulted. He said he wasn't very comfortable with Senator Kelly and Representative Austerman not being here for the final decision. That is a big budgetary decision; part of the budget reduction is not lapsing and it changes other dynamics. There are a lot of big decisions and, while he doesn't know where he falls down at the end, he is a lot more comfortable having the seven working days that Senator Huggins suggested for the coffee to cool on the saucer a little bit on this one; and for members to be a lot better informed and to give the public a greater participation in this process as they help guide us as well. Some of the things we may be boxed in on, but he appreciates not having to make a decision tonight. He thanked the Chair for the executive decision of agreeing to Senator Huggins request.

REPRESENTATIVE GRUENBERG thanked the Chair and the Senate President for the way they are doing this. On behalf of the

minority, it's important for him to take everybody's temperature and for people to really understand what's going on and to be able to participate in this. This is an extremely important decision and he very much appreciates the additional time.

CHAIR HAWKER said this wasn't something that ended with the original lease; that was really just the beginning of this negotiation that has brought us to this point.

VICE CHAIR MICCICHE thanked the Chair's staff for bringing that forward. Again, this is the working home of half the legislature for nine months out of the year and it's a big project. He said that on the Capitol, those that have been in private industry for a while know the cost of deferred maintenance is an exponential increase, it's not linear. This is our Capitol. We've got a lot of choices in this building, but prudently managing structural integrity and the life, safety, he certainly hopes the decision is to get this building back to original structural condition in the future.

REPRESENTATIVE JOHNSON said it would be a harder sell for him to convince his constituents that we need to spend \$33 million to put new bricks on the building basically and upgrade the heat without doing any modifications to the interior, without doing any of the upgrades, so \$33 million for sticking new bricks on it. At the end of the day, it's going to look just like it did. He thinks that's an issue that he supports wholeheartedly, that this is our Capitol and we should keep it safe, but he is not sure that what we're getting for the \$28 million doesn't outpace what we're paying for the \$33 million we're getting for the Capitol and his constituents wouldn't mind having a Capitol in their district. Addressing Senator Egan, he said he's going to fight to keep it here and maybe go against some of the wishes of the citizens of Anchorage.

CHAIR HAWKER said before he hits the final gavel here today, he noted that the "smart people" - Pam Varni, Wayne Jensen, Gary Hovdy, and Mike Buller - are available to talk to any member in addition to the time we will be spending together over the next seven days expediting a dialogue amongst our peers, and bringing this back for a final vote in time to resolve it as session winds down.

VICE CHAIR MICCICHE said that, respectfully, that there is a letter to go out that we promised last meeting and he was happy to help craft the letter that would be going to the demonstrators from April of 2013. The Chair asked Ms. Lucky to return to the table to speak to this issue.

MS. LUCKY apologized that she had not yet distributed the letter. It did go to Senator Dunleavy's office so that he could take a look through the text of the letter and the attachments to ensure it met with his approval prior to distributing it. We will be getting out the letter to committee members as soon as she receives confirmation from Senator Dunleavy that the letter is adequate for his purposes. The Vice Chair was satisfied.

There being no further business before the committee, the Legislative Council meeting was adjourned at 6:50 p.m.

6:50:03 PM