

ALASKA STATE LEGISLATURE
LEGISLATIVE COUNCIL
DECEMBER 04, 2015
2:00 PM
Approved April 14, 2016

MEMBERS PRESENT

Senator Gary Stevens, Chair
Representative Bob Herron, Vice Chair
Senator Lyman Hoffman
Senator Charlie Huggins
Senator Anna MacKinnon
Senator Kevin Meyer
Senator Peter Micciche
Representative Craig Johnson
Representative Sam Kito

MEMBERS ON TELECONFERENCE

Representative Mike Chenault

MEMBERS ABSENT

Senator John Coghill
Representative Mike Hawker
Representative Charisse Millett
Representative Mark Neuman

OTHER LEGISLATORS PRESENT OR ON TELECONFERENCE

Senator Egan; Representatives Drummond, Gruenberg,
Guttenberg, Josephson, LeDoux, and Saddler

AGENDA

APPROVAL OF AGENDA
APPROVAL OF MINUTES
CONTRACT APPROVALS
OTHER COMMITTEE BUSINESS

SPEAKER REGISTER

Tina Strong, Procurement Officer, Legislative Affairs
Agency (LAA)
Sue Cotter, Information and Teleconference Manager, LAA
Pam Varni, Executive Director, LAA

(SPEAKER REGISTER CONTINUES ON NEXT PAGE)

SPEAKER REGISTER CONTINUED

Tanci Mintz, State Leasing & Facilities Manager, Div. of
General Services, Dept. of Administration

Serena Carlsen, Partner, Stoel Rives, LLC

Peter Shorett, Exec. Vice President, Kidder Matthews Real
Estate Appraisal

Juli Lucky, Staff to Rep. Mike Hawker, District 28

[2:01:11 PM](#)

I. **CHAIR GARY STEVENS** called the Legislative Council meeting to order at 2:05 p.m. in the Anchorage Legislative Information Office Auditorium. Present at the call were Senators Stevens, Meyer, Hoffman, Huggins, and Micciche; Representatives Herron, Johnson, and Kito. Absent were Senators Coghill and McGuire, alternate member, and Representatives Hawker and Neuman. Senator MacKinnon joined the meeting initially via teleconference until her arrival at the Anchorage LIO; Speaker Chenault joined the meeting via teleconference after the roll call.

II. **APPROVAL OF AGENDA**

VICE CHAIR HERRON moved that Legislative Council approve the agenda.

There were no objections and the agenda was approved as presented.

III. **APPROVAL OF MINUTES**

- a. February 10, 2015
- b. June 26, 2015
- c. August 18, 2015
- d. September 2, 2015
- e. September 28, 2015

[2:02:30 PM](#)

VICE CHAIR HERRON moved that Legislative Council approve the minutes of the following meetings as presented:

- a. February 10, 2015
- b. June 26, 2015
- c. August 18, 2015
- d. September 2, 2015
- e. September 28, 2015

There were no objections and the minutes were approved as presented.

IV. **CONTRACT APPROVALS**

- a. Homer Office Space Renewal
- b. New Teleconference Bridge System Approval

a. **Homer Office Space Renewal**

[2:03:08 PM](#)

VICE CHAIR HERRON moved that Legislative Council approve the Homer office space lease renewal to Clayton & Joan

Ellington in the amount of \$59,580.60 for the time period of November 1, 2015 through October 31, 2016.

CHAIR STEVENS objected for the purpose of discussion.

TINA STRONG, Procurement Officer for the Legislative Affairs Agency, testified via teleconference that the Homer lease was approved as a three year lease beginning November 1, 2012, through October 31, 2015. The lease has five one year renewal options available and approval is being sought for the first renewal period of November 1, 2015, through October 31, 2016. She said this was a standard lease renewal and would be happy to answer any questions.

[2:04:41 PM](#)

SENATOR MACKINNON noted that she was on teleconference on route to the Legislative Council meeting and asked Ms. Strong how the rental rate in Homer compared to other rental rates across the state.

MS. STRONG responded that the monthly rental rate is \$4,965.05 and they are comparable with other leases in Homer. In response to a follow-up question from Senator MacKinnon, Ms. Strong responded that the office space is 2,936 square feet. Senator Gary Stevens and Representative Paul Seaton, along with the Legislative Information Office all have office space in Homer. The price per square foot is \$1.69.

SENATE PRESIDENT MEYER said he understood there are three people in the Homer office and about 3,000 square feet. He said he didn't think Senator Gary Stevens was at the Homer office too much of the time, so there are probably only a couple of people in this office space. In looking at office space all over the state for the LIOs, he wondered whether there could be some consolidation or cutting back.

CHAIR STEVENS said that to address the specific issue of who is there, there is an LIO officer present during session; Representative Seaton has an office for himself as well as an office for his staff; and the Chair noted he has an office for his staff but does not have an office for himself.

SENATE PRESIDENT MEYER followed-up to say that there are about three people there year round and four people during session.

SENATOR MICCICHE asked if Ms. Strong knew the average cost for legislative office space per square foot across the state. He clarified that he wasn't talking about the Legislative Information Office space, which is space for the public; rather he was referring to office space for Legislators and their staff.

MS. STRONG responded that the office space rental rate varies from \$5.18 per square foot in Barrow to \$1.63 per square foot in Ketchikan, not including Anchorage.

SENATOR MICCICHE said he believed the Homer office space cost is reasonable but that he would like to know the average cost of legislative office space across the state so that Council has some sort of model.

CHAIR STEVENS said that Pam Varni, Executive Director of the Legislative Affairs Agency, would compile and make that available to Senator Micciche and the full Council.

[2:10:11 PM](#)

SPEAKER CHENAULT noted that he was on teleconference.

CHAIR STEVENS noted that also on teleconference were Senator Egan; Representative Guttenberg; Senator MacKinnon who would be arriving shortly; Peter Shorett, Kidder Matthews; Serena Carlsen, attorney with Stoel Rives LLC; Deven Mitchell, Department of Revenue; and Chuck Burnham of Legislative Research.

SENATOR MACKINNON said that in regard to Senator Micciche's request, and because of the tough times Alaska is facing, it would be nice to have a look at the Executive Branch space standards and Senator Micciche's request would get us there, but there were several components to that. One is to know the space that is being allocated to legislative offices throughout the state; the second is to know the cost per square foot, which would then give Council the final number that Senator Micciche is looking for and that is how much utilization per member on a per square foot basis exists around the state to support constituents. She requested that the information be presented together.

CHAIR STEVENS confirmed with Ms. Varni that the information was available for every LIO and other legislative office space across the state. Ms. Varni agreed that could be done right away.

There was a roll call vote.

YEAS: Stevens, Herron, Meyer, Hoffman, Huggins, MacKinnon,
Micciche, Chenault, Johnson, Kito

NAYS: None

The motion was approved 10-0.

b. New Teleconference Bridge System Approval

2:12:46 PM

VICE CHAIR HERRON moved that Legislative Council award ITB 612 to the low bidder, Arrow Systems Integration, in the amount of \$84,154.57 for the Legislature's new teleconference bridge which includes installation costs.

CHAIR STEVENS objected for purpose of discussion.

SUE COTTER, Manager of Information and Teleconference, said she was informed a little over two months ago that the manufacturer of the present bridge system would no longer support the hardware and software for the system. As Council understands, the bridging service is mission critical to participation by citizens around the state in legislative committee meetings. She worked with Tina Strong, Procurement Officer, and the Media Services staff to issue a bid. Three bid proposals were received and the lowest was Arrow Technology; it took care of all current needs and provided extra bells and whistles as well. She said the information provided in the packet covers everything she just testified too as well as additional details. She said she was available to answer questions and Tim Power was on teleconference for any technical questions.

REPRESENTATIVE KITO asked for a quick explanation of the extra bells and whistles mentioned.

MS. COTTER said that one of the things it will allow for is to connect people to meetings faster; it pre-identifies testifiers that are frequent callers, such as commissioners or Executive Branch staff and Legal Services staff. These callers will no longer need to spell their names and identify themselves, which saves a lot of time in connecting callers to the meeting. There are times that up to seven meetings are being held at the same time, there will be two or three bridge operators answering the phone and it takes up a lot of time to ask name, spelling, affiliation, etc.

A roll call vote was taken.

YEAS: Stevens, Herron, Meyer, Hoffman, Huggins, MacKinnon,
Micciche, Chenault, Johnson, Kito

NAYS: None

The motion was approved 10-0.

V. OTHER COMMITTEE BUSINESS

a. Anchorage LIO

b. Gottstein Lawsuit Update (Executive Session)

a. Anchorage LIO

CHAIR STEVENS said he had a couple of comments regarding this issue. He said the Legislature has been dealing with a fiscal crisis here in the state; everyone in the room knows this because they have dealt with it in various committees and in the budgets. There were several cuts to the Legislative Affairs Agency budget resulting in a loss of personnel. Other major changes were made throughout the system. He said we know there will also be significant reductions the next legislative session. He said we are all aware we are trying to find ways to reduce the budget, cut costs and do our job as inexpensively as possible. He pointed out that what we are doing as Legislative Council is making recommendations to the Senate and House, and along the way to the Finance Committees in both the Senate and the House. We are not able to pass a budget; that is not the job of Legislative Council. He asked that members please keep that in mind that what happens here was simply a recommendation to the rest of the Legislature on what Council thinks should be done.

Chair Stevens said that this is the ninth year he has been involved in Legislative Council. The questions of the Anchorage LIO has always been one that has never really been answered, and that is does Council want to own the LIO or to lease the LIO. That is the very foundational and fundamental question that we have dealt with, or not dealt with, frankly, over the years. He said he remembered when Senator Cowdery was Chair of Legislative Council, there was talk about the possibility of a building that would combine legislative offices with the Court System on property that the State had. Senator Cowdery was quite frustrated in his attempts to move ahead on that legislative building and, of course, that did not happen. He said the next Chair, Representative Harris, found himself in the same position;

Senator Menard also worked hard to have the Anchorage LIO move into what is now the NANA Building, but because Council took too long to make a decision, we lost out on that building. Then, of course, Representative Hawker in dealing with this issue the last two years found himself in real frustration trying to come to a conclusion; and now he is sharing in this experience as the current Chair.

Chair Stevens said he really hoped Council could move ahead and make that very foundational decision: does Council want to own or does it want to lease a building in Anchorage. He said several options would be presented at today's meeting on where Council might go. There has been a lot of time spent in dealing with this. There are five options and each one will be explained in detail. He said there are certainly other options and there is no attempt being made to say that these options being presented are the only options available to Council. There are also lots of ways to finance a purchase should that be the choice. He said that while there may be other issues discussed, he was asking that Council hear the five options being presented, discuss them in as much detail as members care to hear, and then he would ask Council to go into an Executive Session for confidential information. He requested Pam Varni and Doug Gardner to come forward to explain the five different scenarios and to answer any questions that members may have.

Chair Stevens noted that also on teleconference to answer questions about financing options and legal issues were Deven Mitchell, Department of Revenue and Alaska Municipal Bond Bank Authority; Serena Carlsen, Stoel Rives LLC, who has been negotiating on behalf of Legislative Council on the purchase price of the building; and Tanci Mintz, State Leasing and Facilities Manager, Department of Administration.

PAM VARNI, Executive Director of the Legislative Affairs Agency, introduced herself and Doug Gardner, Director of Legal Services, for the record. She said she would be going over the Chairman's report. At the April 13, 2015, Legislative Council meeting, the Chair was to analyze options for legislative office space in Anchorage and report back to the full Council on three items: (1) purchasing 716 W 4th Avenue building and land; (2) request bonding costs from Alaska Housing Finance Corporation (AHFC) to purchase 716 W 4th Avenue building and land; and (3) evaluate State-owned office space.

She said negotiations have been ongoing over the interim between the managing owner of 716 W 4th Avenue, Mark Pfeffer; his attorney Don McClintock, with Ashburn and Mason; Serena Carlsen, Council's outside real estate attorney with Stoel Rives; herself; the Council Chair Senator Stevens and his staff Katrina Matheny; and Doug Gardner, Director of Legal Services. Serena Carlsen is the expert that has been doing the negotiating with Don McClintock and Mark Pfeffer, and she is on teleconference to answer questions.

Ms. Varni said that there are several scenarios for consideration: continue the current lease; purchase through AHFC; Mark Pfeffer suggested purchasing through Certificates of Participation, which was added as another possible scenario; a cash purchase through the Capital budget; and finally to move to State-owned space at the Atwood Building. She said she would go through these scenarios and welcomed members' questions at any time.

CHAIR STEVENS interrupted to note copies of the scenarios were available for members of the audience.

MS. VARNI began with Scenario #1: Continue Current Lease at 716 W 4th Avenue. She said the action required is that the Legislature needs to fully fund the Legislature's State Facilities Rent component every year for the remainder of the 10 year lease. She noted that the reason all the scenarios were for a 10 year period was that the real estate attorney suggested that time frame as that is the period of the lease obligation. Twenty year scenarios are available for all members who want to look at those numbers. She advised members that the graph in this scenario, as with all the other scenarios, does not show any inflation figures. Naturally, as time goes on, the operating expenses may change. The graph under this scenario shows the annual lease amount of \$3,379,656 the operating expenses budgeted for \$652,344 for a total annual cost of \$4,032,000. The 10 year total cost is \$40,320,000 and a per square foot rate of \$7.41.

SENATOR MICCICHE asked Ms. Varni to confirm that the total square footage of the building is 64,000.

MS. VARNI responded that 64,000 is the gross square footage, but that all of the Legislature's leases throughout the state as well as for the Executive Branch are based on usable square footage. These calculations are

based on usable square footage and that total is 45,371 square feet plus 86 parking spots.

SENATOR MICCICHE said he asked the question because the Homer office space lease square footage number was over 4,000 square feet.

MS VARNI said she believed the Homer LIO square footage to be 2,900 and that is usable square feet, it is not gross.

SENATOR MICCICHE said that when he thinks about the office space that is used in Homer, there is a very large common area. When he compares it to the Anchorage LIO, it seems like more of the common space would be used in the calculation. He asked what areas comprised the 20,000 square feet of non-usable areas at the Anchorage LIO.

MS. VARNI said it included the penthouse, all of the elevators, rest rooms, essentially every square inch of the building.

SENATOR MICCICHE said that if you are using the space and the space is necessary in order to access the building or do the things that humans do at work, you wouldn't lease another building or piece of property anywhere else without considering that usable space. He said he wondered why LAA chose to use that number as the way to determine usable space.

MS. VARNI asked Tanci Mintz to address the Senator's question.

CHAIR STEVENS asked Senator Micciche to confirm that his question is about the difference between usable and gross for the purposes of a lease. Senator Micciche confirmed.

TANCI MINTZ, State Leasing & Facilities Manager, Division of General Services, Department of Administration, put herself on the record. She said there were three different methods in the industry for renting space: "usable," "rentable," and "gross." She said Ms. Varni was correct in that the State Executive Branch and the Legislative Branch use "usable," which signifies the space that one physically operates within, the demised walls. It does not include the mechanical rooms, stairwells, main lobby areas; it is strictly the space of the office suite. The "gross" square footage is everything in the building. Within the Executive Branch and, as she understands it, the Legislative Branch, "usable" square footage is used in all of the leases, of

which, for the Executive Branch there are 450 statewide, even if the lease space is a full building.

SENATOR MICCICHE said it was an interesting metric to use when leasing commercial space. He said you simply can't magically eliminate the other spaces that serve a building. He said he doesn't believe we do that in the other LIOs as well when he thinks about the common space in those locations. He said if someone else was coming to lease this building at 716 W 4th Avenue, it would include that other space just like one would any other commercial space. He didn't know if it was a fair comparison per square footage as Council tries to process this decision. Common spaces cannot be eliminated as you cannot use the building without those common spaces. He said that he'd like to expand his initial request to understand the total space that the Legislature is occupying versus how "usable" space is determined in those spaces across the state.

SENATE PRESIDENT MEYER said that since the Department of Administration is at the testifier's table, he had some questions he'd like to ask about the Atwood Building. He said that he has been on the Council periodically over the last 10 years and he is trying to figure out how we got where we are today. He said he thinks Council was up against a deadline and there really wasn't any other space available downtown that could house as much space as was needed. He said all government offices try to stay downtown whenever possible. At that time, the Atwood Building wasn't available and he thought the plan was to try and consolidate all the office space for state employees throughout the city. He said he asked how many leases were expiring for office space and there was a lot expiring in 2016. He wondered how much space was available today and how much space would be available at the end of 2016, if the consolidation process continues.

MS. MINTZ responded that there was currently a vacancy in the Atwood Building of 23,000 usable square feet.

SENATE PRESIDENT MEYER asked about the current square footage at the Anchorage LIO.

MS. MINTZ, with information provided by Ms. Varni, replied that there was 45,371 usable square feet. She went on to say that it was the intention that another full floor be identified for the LIO and legislative office occupation, bringing the total to approximately what was needed. In response to follow-up questions by Senator Meyer and Chair

Stevens, she responded about other lease space for the Executive Branch that there are quite a few leases that are expiring and many of them have options, which would normally renew since the rate remains the same. The leases that do not have renewal options require an examination of the particular office to determine if the mission is compatible with those currently occupying the Atwood Building; if not and they are going to stay in that office space, they determine if downsizing is possible; each lease and occupying office is looked at individually on a case-by-case basis. She said there are some agencies that would be moved into the Atwood Building if the LIO/legislative offices chose not to move into the Atwood Building. She said she would make available copies of what she provided to the Senate President.

SENATE PRESIDENT MEYER said that it would be good for the other Council members to have the spreadsheet because it looks like there is over 200,000 square feet of leased office space expiring. If the Administration continued their consolidation, there wouldn't be enough space in the Atwood Building for all the expiring leases let alone space for the Legislature. He agreed with the Chair that the cost of the office space leases is important, some of the leases are fairly cheap. He asked what the Atwood Building per square foot cost was.

MS. MINTZ said that it was \$1.50 per square foot. The lease rate is renewed every year, re-analyzed based on the previous year's operating expenses. For FY 16, the Atwood Building lease cost is \$1.50 per square foot for a full service lease, which includes all utilities, maintenance and operations, parking, security, and building management.

SENATE PRESIDENT MEYER said that was something to be looked at; for instance DEC has 45,000 square feet at \$2.34 and the HESS at \$1.98 and DOT at \$2.07. He said that granted that's still a lot cheaper than what the Legislature is paying for at 716 W 4th Avenue but it's still something worth looking at and making a comparison so we can see where we can maximize the savings.

CHAIR STEVENS requested a copy of the spreadsheet be given to the full Council. He asked Ms. Mintz, based on something he had heard, about whether there were state agencies in Anchorage who would not want to move into the Atwood or who would not be welcomed into the Atwood by the other tenants.

MS. MINTZ said that when considering who would be a good fit for the Atwood Building, they look at the mission of the agency, and their relationship with the Executive Branch and with the Governor's Office, due to the proximity. She said Atwood is a Class A office building, so we want to bring in agencies that are a good fit. She said that the lease mentioned by Senator Meyer for DOT is their weight and measures office area where they have their labs, so that would not be a good fit; OCS, due to the amount of traffic they have would also not be a good fit in the Atwood. She said they do look at the leases one by one to see which would be a good relationship to be co-located with the other tenants in the building. In response to a question by Chair Stevens, Ms. Mintz said the Legislature would be a good fit.

VICE CHAIR HERRON asked, if this option was executed, when could the Legislature move into the Atwood Building.

MS. MINTZ said that it would be 1.5 to 2 years to have the space ready.

CHAIR STEVENS said there would be much more detail about the Atwood when that option was discussed.

SENATOR MICCICHE said that before the \$1.53 price is picked up and carried too much further, that the Legislature's cost for the Atwood would be about \$4.90 per square foot with "all in." He said he wanted to make sure there was an apples-to-apples comparison.

MS. VARNI said that was correct although the Legislature has already paid the \$7.5 million for tenant improvements at 716 W 4th Avenue, the total actually would be \$2.82 per square foot if one is just looking at the costs for the Atwood and the tenant improvements for the Atwood, not including what was already paid for the tenant improvements in the current building.

SENATOR MICCICHE said then the \$7.5 million should be removed from all the comparisons.

MS. VARNI responded that was why the amount was put in a separate table so that it didn't look like she was trying to hide it.

SPEAKER CHENAULT asked if it was possible to get a list of buildings owned by the State of Alaska in Anchorage.

MS. MINTZ said that there were quite a few other buildings owned by the State, but not a large quantity of office buildings' there was the crime lab, the troopers, UAA has a few office buildings, the Mental Health Land Trust has a few office buildings, the DOT complex on Tudor; but as far as large scale office buildings owned by the State, there are not very many of them. She said that she would work with Ms. Varni to provide a list of those buildings.

SENATOR MACKINNON asked to follow-up on the Speaker's request and said that the utilization of that space had been a factor under consideration by the previous Administration and she believed by this Administration looking at design standards for all of us and that's why she was asking the question about the Homer LIO. She said she was thinking about the DOT facility out by the airport and she wanted to know how many employees are actually utilizing that square footage so that they can see if the best use is happening for each of the facilities. She said she certainly thinks the people of Alaska are interested in how we are utilizing space everywhere, not only in the Anchorage LIO, but how we are looking at square footage and how it is utilized throughout the state. She understood that some of that space was pretty sprawling now and in these tough times, she does think that consolidation of some of the lease space is something that they should consider and do. She said she would like an update, not necessarily for this committee, but on the space standards study that this Administration set aside. She said that there was a planned use for all 20,000 square feet that is currently sitting vacant and has sat vacant for close to a year that the Atwood Building has foregone revenue. She wasn't sure why and she understood that the Legislature had an issue at this particular facility that we're trying to work through but there were opportunities in last year's cycle to move additional agencies into the Atwood square footage and not have it sit vacant. She said she knows the Administration is looking at that and she would just like to understand more so that when we're evaluating, as Senator Micciche said, apples-to-apples instead of apples-to-oranges.

CHAIR STEVENS said that was a very appropriate question in these hard times. Speaking about the Atwood, the top floor he understood was a firm of attorneys that have since vacated; that entire floor was leased to an outside business, not an agency of the State.

MS. MINTZ confirmed that the 19th and top floor of the Atwood Building had been occupied by the Alaska Bar Association. When they vacated, the Administration used that space, as had been done in the previous Administration, as temporary space for agencies while space standard remodels and consolidation were completed over the past few years.

SENATOR MACKINNON said she had the opportunity on several occasions last year to walk through some of the Atwood Building and the vacancy in the cubicles there was huge, at least at that particular time. She said she understood there was movement going on and she looks forward to the space standards study so they can see what is happening and appreciated the document titled "Anchorage Office Leases Expiring." She said she wondered if they should look at lease space across the state in its entirety for the same purpose: what do we have, how is it being utilized, could it be placed in the hands of the private sector, could resources be consolidated together. She said she knows that earlier in the meeting, there was a discussion of some expensive lease space up in Barrow, we understand those challenges in that market but when she has traveled in past years to other parts of the state, she saw entire buildings vacated from the federal government because people couldn't afford to pay the rents that those communities were asking for those facilities. She said that was just one facility, it was a federal project but it would be nice to know what is happening with our lease space.

Senator MacKinnon said maybe we should just request that from the Senate Finance Committee to be ready for the next legislative session to have a review of the assets that the State owns from the Administration as well as the square footage that we're paying as well as any outstanding capital requests, something that is all encompassing for how we are utilizing that space.

CHAIR STEVENS said he agreed that it is very appropriate that we do this. He said walking through the Atwood space, it was surprising how much empty space there was, but Ms. Mintz also took him through the other buildings - the one with white arches near the Captain Cook Hotel and the one down more on the waterfront by the Railroad - there is just a lot of space that is not being utilized because of the reduction that we see in staff. He said he wanted to pursue a little farther that there are agencies that either are not wanted in the Atwood because of the activity or that would rather be in other places and one that he personally

knew of he asked Ms. Mintz to address, which is the Whale Building right next to the Courthouse, which he believed was occupied by Law and was a pretty substantial occupancy.

MS. MINTZ said the Department of Law, which includes the Attorney General's Office, is in the 1031 W 4th Avenue building, the Brady Building, and the District Attorney's Office is in the Whale Building. The District Attorney's Office does not occupy the entire building but they have had a presence there for a long time. The standard within the Executive Branch is that any agency that does the business with the Court System be located within a three block radius because of the amount of traffic between the Courthouse and their offices.

SENATE PRESIDENT MEYER said, of these leases that are expiring in 2016, and as he mentioned there are a lot of them, some of them are happening in January or February and didn't know if Senator MacKinnon and the Finance Committee would have time to address some of these. He asked if Ms. Mintz had identified which groups, if any, that they do want to move to the Atwood Building. He said his other question was that the Atwood Building isn't that much farther away from the Courthouse than the building mentioned by the Chair. He said it sounds like we do rent out the Atwood Building to other law firms so he guessed maybe they should question whether they have to be that close. He said he thought the rent at that other building was pretty high although he didn't have the numbers in front of him. He asked how much square footage has been identified as being able to move into the Atwood Building of the leases that are going to expire in 2016.

MS. MINTZ said that there is one specifically that will be expiring May 31, 2016, with four one year renewal options; she said they would most likely be exercising the first one year renewal option to give them time to build out the space to make it ready for them and that is the Department of Environmental Conservation (DEC). She said that they are waiting to see if the space would be used by the Legislature. DEC is the largest lease that they would look to move in and whatever couldn't be accommodated at the Atwood would be moved to the Bayview Building where other DEC staff are currently located. That was one that the Chair and some other Members walked through to see that vacancy and utilize the space that is not being used efficiently. As it relates to legal firms in the Atwood Building, all the private tenants have vacated the Atwood Building so there are no law firms there now. She said that

to complete their mission and to have everyone next to each other, they try to keep Department of Law and the District Attorneys together because they use so many shared resources.

SENATE PRESIDENT MEYER asked Ms. Mintz, after some discussion to identify the functions of certain groups with leases also expiring May 31, 2016, to confirm how much space DEC had currently and what was available at the Atwood Building.

MS. MINTZ confirmed that DEC currently occupied 45,000 square feet and that there is 23,000 square feet available at the Atwood Building, with the opportunity to consolidate through space efficiency to retain another 13,000 square feet. Each floor is about 12,000-13,000 square feet.

SENATE PRESIDENT MEYER said then that it would be a stretch to try and get all of DEC in at Atwood.

MS. MINTZ repeated that what didn't fit would be moved into the Bayview Building where there are other DEC offices already located.

SENATOR MACKINNON said she wanted to go back to the conversation about the Whale Building. She asked Ms. Mintz whether the State owns or leases that building and Ms. Mintz confirmed that the building is leased. She asked for the average square footage cost lease on that building.

MS. MINTZ responded that it was approximately \$3.00 per square foot for a full service lease.

SENATOR MACKINNON said we find ourselves in interesting times. Alaska has a revenue shortfall of \$3-4 billion dollars and we need to do business differently. She said she was putting that on the table and that is the primary basis and the foundation for her comments. She said she has heard this body and other bodies during three special sessions talk about the need to fulfill our commitments, we need to complete our contracts, we need to do the right thing for the people of Alaska. So, we're just as close to the Boney Courthouse in this facility and we have more utilization or at least square footage available in this facility if we wanted to bring other occupants into this building to do that. She said she just put that out there if we're short and trying to get our team together that there is an opportunity to move things around and still fulfill commitments. She said she wondered what kind of

analysis we're doing to honor our contracts. She said she thought she heard Ms. Mintz say that the Administration is anticipating over at the Atwood Building through space standards utilization the opportunity to save space of about 13,000 square feet or one more floor. She asked if that was accurate.

MS. MINTZ replied that it was.

SENATOR MACKINNON asked which floor was being cleared to achieve that space.

MS. MINTZ said it would be the Department of Natural Resources and they would need to work with them closely to see which floor would work best for them to consolidate; they have approximately four or five floors currently.

SENATOR MACKINNON directed a comment to Ms. Varni concerning her mention of a "penthouse." She asked Ms. Varni to elaborate.

MS. VARNI said the "penthouse" is the word used to refer to the mechanical space, it is not office space.

REPRESENTATIVE JOHNSON said the list of expiring State leases goes through 2017 and since it was going to be approximately two years before the space was ready, he requested a list for 2018 as well. Ms. Mintz said she would certainly provide that. He asked when the Whale Building lease would expire and then asked if there was a consolidated list of all leased State space.

MS. MINTZ replied that there is a list of all leased State space on their website and that she could get him a consolidated list like the one she provided for Senate President Meyer through 2018.

REPRESENTATIVE KITO said that when we look at this list of leased spaces that are expiring, he doesn't see any of that space exceeding \$2.70 a square foot. He said 20,000 or 30,000 square feet of our utilization is going to save the State of Alaska, because we are part of the State of Alaska, a significant amount of money if we were to go into the Atwood Building versus having another State agency move. He said there is no comparison because we are paying so much more. He then asked if the lease rate was based on the number of tenants, so based on the actual costs; in other words, if there are more tenants in the facility, then the lease rate actually goes down.

MS. MINTZ responded that was not correct. The lease rate is based on the actual operating expenses and projected operating expenses from the year before. Each agency pays the same rate under the Public Building Fund Program that was established in 2000; so no matter if the building is two-thirds full with a one-third vacancy, everyone still pays the same rate. The fund pays the vacant portion of the space until it's filled.

REPRESENTATIVE KITO said, to confirm, it's the same rate as if it were full and the fuller it gets, the less the vacancy fund is utilized. Ms. Mintz agreed that was correct.

CHAIR STEVENS asked Ms. Mintz if the State owned the building outright and owed no money on it.

MS. MINTZ said the State does own the building. AHFC holds the master lease and in 2017 the lease will be paid in its entirety and will revert strictly to the Department of Administration. The cost last year was \$1.56 a square foot and through the times we are in right now, they did as much as they could to bring costs down. They looked at service contracts and renegotiated, which brings them a less expensive rate this coming fiscal year. She said they would continue to do that.

CHAIR STEVENS said that it's a small point, but an issue he knows the Senate President dealt with the Borough Assembly here, is that the Atwood Building owned by the State pays no tax to the City. Right now, this building owned by Mr. Pfeffer pays City tax, but we pay that to the owner. He asked Ms. Varni if that was correct.

MS. VARNI said that was correct. She said we paid a total of \$262,335 and that was for the assessed value of \$17,845,982 for this building.

CHAIR STEVENS said that it was fair to say that whatever happens to this building short of the Legislature buying it, if it stays in the public arena, taxes would be collected on this building. Ms. Varni agreed that was correct.

SENATOR MACKINNON said that under Scenario #1, continuing the current least at 716 W 4th Avenue, she said she hadn't heard any conversation about the flat rental rate. She said it looks like the proposal somehow built in a ten year flat fee. She wondered about the cost benefit and time value of

money, and how that structures out. So what she is saying, if the general public is listening, is however this was negotiated it looks like it was negotiated to hold the same and there is value to that. She said you signed a ten year lease, my rental rate is not going up and we could have had the rental rate significantly less in the first year and escalate up over time at percentages. She asked if the analysis had been done on the flat fee. She said she had not done the analysis and she just sees \$4 million dollars, which sounds like an incredibly large amount of money, \$7.41 per square foot seems like price gouging to this Legislator, but then she has to take that second look to say that she is still paying that same rate in 2025 and she doesn't know what the escalator looks like after that and she has a \$7.5 million investment of the people's money that she is trying to protect. She wanted to hear about the time value of money and the rental fee that stays flat, and the lease space actually to get it reported correctly is approximately \$3.4 million dollars.

MS. VARNI said that through the leases throughout the state, where we have a full service lease, and there's only a couple leases that are very small where we might do our own janitorial, but the rest of the leases include a full service lease. She said this is the only lease that is not a full service lease. In some of the earlier drafts of the lease, before it was finalized, there was a 3% per year escalation but we are paying the utilities. When we do a full service lease throughout the state, that's the reason there is a CPI, the formula that gives that landlord a cost of living increase. Since we are paying the utilities, that did not make sense to give the landlord an increase, and she said she wasn't in on the negotiations, that was Representative Hawker. She said that's why you see the \$3.4 million a year without an escalation in there.

SENATOR MACKINNON said she appreciated the answer though it's not the answer to the question she asked. This is a flat fee and she will use Juneau as an example. She said she had the honor of serving Alaskans for nine years and is going into her tenth session this year, and she started paying rent for \$1200 in Juneau and now she pays rent at \$1750 and she has been told that the rent is going to escalate again. So, there is property, a CPI, an escalation process for the lease space that you rent and it's not apparent in this scenario. She said she is with the people of Alaska looking at that number saying that number is too big but she hadn't heard any discussion from a financial perspective to understand what the real cost of today's

rent is versus paying it now and not paying it later. Somehow this lease looks like it was based on the thought that the CPI would continue to go up and somehow someone was trying to protect us in the future because we're going to pay the same price later. If that doesn't work out pencil-wise, she just wants to know because if I'm paying in 2016 \$3.4 million for the lease amount, not the actual cost because it's not a full service lease, and I'm still paying that in 2025, there is some security at least out in 2025 that we benefit from. She said she doesn't know what that looks like based on the spreadsheet she had. She said it's not a trick question, she just wanted to see the numbers.

MS. VARNI said that Serena Carlsen was on teleconference and asked her to address that question.

SERENA CARLSEN, Partner at Stoel Rives, said she was retained by the Legislative Council to work on both a lease negotiation and negotiation for the purchase of the building. She said she was not involved in the original lease but has looked at all the documents and what was done is that an escalator was applied to the original number through year ten and then the rent was averaged. That is the reason you do not see the lease amount changing over the ten year period.

SENATOR MACKINNON asked if Ms. Carlsen could give the general public the original lease number so we know what was averaged. She said that really still doesn't accomplish the math on the time value of money as far as front paying the amount.

MS. CARLSEN said she could not answer the question of the time value of money and she would have to go back to pull the original documentation when the lease was signed for the mathematics of how the number was derived; she doesn't know that off the top of her head because she didn't participate in the original lease negotiation.

SENATOR MACKINNON said she appreciated that and asked whether Ms. Carlson recalled if it was \$1 million or \$1.5 million in year one, escalating in \$1.7 in year two, escalating to \$1.9 in year three and then those numbers were divided to arrive at the average.

MS. CARLSEN said that as she recalled there was a conservative inflation factor added but she couldn't say

the exact number although she thought it was somewhere in the 2-3% range and then averaged over the ten years.

SENATOR MACKINNON said she just thought it would be valuable to have that average. She said when you give the general public a flat fee of ten years, it would have been nice to know some of the background so that we could understand the math. She said we may be paying too much up front if the price on inflation is very low or, if inflation gets very high, it could be just the reverse. In making the flat payment you're taking somewhat of a risk over time that you're CPI numbers are accurate.

REPRESENTATIVE KITO, directing a question to Ms. Varni, said that when she mentioned the recent tax payments, she indicated an assessed value and asked her to repeat that number.

MS. VARNI responded that the assessed value was \$17,845,982.

REPRESENTATIVE KITO then asked about the purchase price for the building.

MS. VARNI said that a letter was sent to Chairman Stevens from Mark Pfeffer and he is asking \$37,000,000 and, in addition to that, whatever his cost is for prepayment penalty for his \$28,000,000 loan; at this point, it is estimated to be about \$950,000 but we wouldn't know the exact amount until we're closing.

CHAIR STEVENS said then that the best guess at this point is \$37,950,000.

REPRESENTATIVE KITO followed up to say that if he bought a house and put a bid on the house that exceeded the assessed value of the house, he wouldn't be able to get a loan for that. He said he is concerned that our value in this building is much less than the building is worth.

SENATOR MICCICHE said that the difference between assessed value and appraised value is fairly significant. He said that if you asked any investor for any commercial building if they could purchase an investment for the assessed value there would be lots of folks swarming to the table.

CHAIR STEVENS said he wanted to clarify a comment Ms. Varni made for the Council. When we started to put together a comparison of these five scenarios, we started with a 20

year basis and that seemed to make sense. As we moved along, Ms. Carlsen said the current lease was only 10 years, so to compare apples-to-apples, each scenario should be for a period of 10 years for all five. He said a 20 year scenario was available to Council; they could also do a 30 year because that may be what a mortgage term would be. He just wanted members to be aware that the reason we are using a 10 year comparison is so Council will be able to make a better evaluation of all five options.

SENATOR MACKINNON wanted confirmation that the assessed value of \$17,000,000 was for 2015 and asked what the assessed value was before the building was repaired.

MS. VARNI said that she did have that figure and would need a minute to find it. She said she believed it was under \$2,000,000 and that the landlord requested and received a reduction in the assessed value due to problems with the HVAC system.

SENATOR MICCICHE asked if the Chair had the appraised value of the building to accentuate the difference between those two terms.

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DISCUSSION FOLLOWED between Chair Stevens, Senator Micciche and Doug Gardner, Legal Services Director, who had advised the Chair to discuss the different appraisal values first in Executive Session. In response to Senator Micciche's questions and concerns that the assessed value number was made public and the appraised values should be as well, Mr. Gardner said that while the assessed value was not the same as the appraised value, and that purchases are based on the appraised value, the assessed value was one more number for Council to consider. Mr. Gardner recommended that Council hear from the commercial real estate expert Peter Shorett with Kidder Matthews first in Executive Session so that they could have a good understanding of the different appraisal values and then decide how they wanted to share that information with the public. Chair Stevens agreed to hold the initial discussion of appraisals in Executive Session.

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SENATOR MACKINNON said that she was one of the Legislators that advocated for the purchase of the NANA Building by Legislative Council. She said one of the things that happened when the Legislature was trying to allow more parking for the people of Anchorage in the downtown area

was that constituents contacted her office and Senator Cowdery's office and many others. The Legislature had a debate about sharing parking with the people and the City of Anchorage. She said there was a business agreement that brought in revenue to the Legislature and basically ran the cost of our own lease space up by basically showing the owners of the property that there was parking that was under-utilized in evening hours and that they could actually make more money on that property.

Senator MacKinnon asked how parking was being handled now. She said she wasn't part of the original discussion on this process. She said there is now paid parking outside of business hours and she asked if the Legislature shared in any of that revenue or is that just a portion of the lease. She thought the Legislature had received some benefit from opening up our parking to the people of Anchorage.

MS. VARNI said that the Legislature had a separate contract with EasyPark and it was her recollection that the Legislature receives approximately \$20,000 annually in revenue. She said Jessica Geary, Finance Manager, would be able to provide the exact figure.

SENATOR MACKINNON asked if that was reflected as a reduction or revenue in the lease costs presented to Council.

MS. VARNI said it is not figured in the scenarios, it is not paid to the landlord. If it were to be included, it would probably show as a reduction in the operating expenses. It isn't a documented revenue, it goes back to the general fund.

SENATOR MACKINNON said she raised this because (1) it is a revenue source that is not reflected here and (2) it is a negotiated fee, if the State actually didn't have EasyPark doing it and did it ourselves, there is a revenue generator that is vacant that could offset some of the costs and that's how we negotiated it originally. We thought it would be additional income for the State. She said \$20,000 compared to \$3.4 million dollars, while huge in her books, is not significant to move the percentages up or down. She said she was just wondering what wasn't included as revenue from that particular revenue stream that we identified. She noted to the Chair that particular move caused our lease prices to go up when the owner recognized that there was profit to be made in the parking lot too.

REPRESENTATIVE JOHNSON asked if the Legislature rented parking spaces during the renovation process at a cost of \$600 per month.

MS. VARNI said there were parking expenses and said Juli Lucky, staff to Representative Hawker, would probably be able to answer that question.

JULI LUCKY, staff to Representative Mike Hawker, put herself on the record and said she didn't have the actual numbers but could provide them. She said it was her understanding that part of the negotiation was that the landlord would pay for the parking, so we didn't actually cut a check or see the numbers. She said what basically happened is that we would send the landlord the number of parking permits needed per month and the landlord would purchase the permits and give them to her. There was no cost to the Legislature for parking.

REPRESENTATIVE JOHNSON said he wasn't talking about the cost to the Legislature, but looking at the math, at a cost of \$600, that's \$28,000 per month just if we use the top half of our parking lot. So, all of a sudden, the \$20,000 becomes a fairly big number if you multiply it, take half the parking spaces times \$600 times 12 is \$300,000-plus that we could generate in revenue.

SENATE PRESIDENT MEYER directed a question to Ms. Lucky. He said Ms. Varni mentioned that the lease on this building was negotiated by Representative Hawker, the previous Legislative Council Chair. He believed that Representative Hawker had assistance from Alaska Housing Finance Corporation in helping him to determine what was a fair amount for the State and asked Ms. Lucky to speak to that.

MS. LUCKY said that she was not involved with the negotiations. One of the reasons was because AHFC was retained as the tenant representative and she knew that they did a substantial amount in the negotiations and also a substantial amount in determining the fair prices of the tenant improvements. She could not provide that many details as she was not involved in the day-to-day negotiations. She said she does know that AHFC did the majority of working with the Legislature's legal counsel and the landlord in coming up with the lease. She said Mr. Gardner might better be able to address that question.

CHAIR STEVENS asked members if Council was comfortable in moving on to Scenario #2; noting that many issues in the upcoming scenarios may have already been discussed.

MS. VARNI, before moving on to Scenario #2, said she just received a text noting that the Legislature did receive \$26,200 in FY 14 for parking revenue.

Ms. Varni said the action required for Scenario #2: Purchase 716 W 4th Avenue Funded by AHFC Issuing Fixed-Rate Bonds is that the Legislature would need to pass a stand-alone bill to enable AHFC to finance the purchase of this building; with the issuance of bonds with a 10-year maturity at a fixed rate of approximately 2.16 percent. She said she did receive the debt service interest costs as well as the cost of bond issuance and administration from Mike Strand, Finance Director of AHFC. She said it was a total of \$48,850,000; which includes the \$37,950,000 purchase price, \$4,800,000 debt service interest total, and the cost of bond issuance and administration. This brings the annual lease purchase cost to AHFC to \$4,360,000 plus \$5,250,000 for operating and maintenance expenses. She said the operating expenses went down under any of the purchase scenarios because we would not be paying insurance or property taxes. Because we would own this asset and be responsible for any and all ongoing maintenance and operating costs, one position was added for a building manager to the operating expenses.

CHAIR STEVENS said he wanted to acknowledge the several Legislators not on Legislative Council who are either in the room or on teleconference and invited them to ask questions if they had any.

There being no questions regarding Scenario #2, the Chair had Ms. Varni move to Scenario #3.

MS. VARNI said Scenario #3 was to purchase 716 W 4th Avenue via the issuance of variable rate certificates of participation. The action required would be that the Legislature would need to pass a stand-alone bill outlining the project, cost, annual payment and total payments. This information was obtained from Deven Mitchell, Debt Manager with the Treasury Division in the Department of Revenue. These figures show a flat rate interest of 0.6%, which is the current variable rate. She said there is a risk that if interest rates rise, the State's credit quality diminishes, or there is a market dislocation, the interest rate would increase; however, the calculations use the current

variable rate. The total shows the purchase price of \$37,950,000; the debt service interest rate of \$1,149,600, and operating costs over the 10 year period of \$5,250,000. The total cost would be \$44,614,600.

VICE CHAIR HERRON said he needed to understand the advice from both in-house and outside counsel why only a 10 year window was used. He said if he was going to buy a new home, he couldn't afford to pay it off in 10 years.

DOUG GARDNER, Legal Services Director, said that the idea was, since the Legislature does an annual budget, to try and look at some examples of scenarios that look at a cash flow type of analysis so members would know what they were facing; and make some effort, as was alluded to earlier, to try and do an apples-to-apples comparison. He said Ms. Carlsen was online and may be able to answer that question. The two examples pointed out both in comparison to a cash purchase price illustrate that there are financing costs, illustrate that there are metrics we don't know enough about; but the purpose was to illustrate the fact that it is more expensive to finance. Were the Legislature to want to purchase, the Legislature might want to look at 20 or 25 years, something like that. The total price would get larger because you're financing it over a period of time; and the annual cash price would likely drop. Ms. Carlsen might be able to provide enough information to address the Vice Chair's question.

MS. CARLSEN said that in the commercial world, buildings are typically financed between 20 and 30 years; 20 probably the most common in the current financing environment.

CHAIR STEVENS asked Ms. Varni to share the 20 year comparison costs for Scenarios 2 and 3.

MS. VARNI said she would be happy to share the 20 year total cost in each of the five scenarios. The total cost for Scenario #1 (continue in current lease) would be \$80,640,000; #2 (purchase using AHFC bonds) would be \$62,800,000; #3 (purchase via issuance of certificates of participation) would be \$51,037,600; #4 (cash purchase, plus operating costs over a 20 year period) would be \$55,950,000; and #5 (moving to State-owned Atwood Building) would be \$13,295,520.

VICE CHAIR HERRON said it was important that be explained because in the early '80s, when he hardly had two nickels to rub together, his wife and he did take out a 30 year

note for their home, which they still live in. He said that they realized within seven years that they should refinance for a period of 15 years because they would have paid two or three times over if they had gone the full 30 years. He said the shock value of Scenarios 2 and 3, when one doesn't know why we did the scenario; that is important for the public to know.

SENATOR MACKINNON said she would like the square footage costs in the 20 year version of Scenarios 2 and 3, because that is what we were comparing. She also asked how long we have been in this particular facility renting already. She said there was some value in being located in this building. She said Anchorage's Comprehensive Plan 2020 actually asks for government services to locate in the downtown area as part of their planning efforts.

MS. VARNI said the square footage cost in Scenario #2 was \$6.46 and in Scenario #3 was \$5.38.

SENATOR MACKINNON asked about the square footage costs for Scenario #4 to include the amount of time the Legislature had already been in the building, and, in response to Ms. Varni saying she would need to refigure those costs, agreed that it would be acceptable to get those numbers after the meeting.

REPRESENTATIVE JOHNSON asked what the square footage costs would be in year 2026 under the 10 year purchasing scenarios.

MS. VARNI said she believed it would be similar to what the square footage cost was in Scenario #5: Move to State-Owned Space at the Atwood Building, maybe in the \$1.70 range.

REPRESENTATIVE JOHNSON said so if we bit the bullet for 10 years and then after that for 20 or 30 years we pay \$1.70. Agreeing that any maintenance and operating costs would be on top of that, he said his point was that this was a really front end loaded lease with the 10 years. He said he was less interested in comparing apples-to-apples then he is in comparing what is best for the State in the long run. He said he wanted to look at all of the scenarios and he doesn't think he has all the scenarios in front of him. He said in 2026, \$1.70 plus maintenance is going to look really good.

REPRESENTATIVE KITO said that if we choose Scenario #5, we are in a situation where we already are, at that point,

paying \$1.80 per square foot for the next 10 years, which is a significant savings to the State between now and year 10, when then, as an owned facility, we would drop down to the level of what the State is paying at the Atwood Building.

REPRESENTATIVE JOHNSON said that was assuming the rent doesn't go up. He said his point was for illustrative purposes only, somewhere in the next 10 years, there's got to be a balance between the \$7.00 and the \$1.70 per square foot cost that we can come to. Or not. He said he thinks that unless we look at that, and look at that scenario as well as these five, we may have 10 scenarios here and he is not comfortable at this point with the information we have because he thinks there are a lot of other options out there that we haven't really looked at. And we haven't looked at the long term costs of the money. He said he can't disagree with what Representative Kito said, but it's just a balance and was for illustrative purposes that he mentioned that.

SENATOR MACKINNON said we're comparing all the scenarios to moving to the Atwood Building because that appears to be the lowest cost, at least for tomorrow versus today. She asked the Administration if they're planning on building that out for free or whether there are going to be costs associated and charged to the Legislature for the build-out. She heard it stated that it will take one to two years to modify that space and it's been sitting vacant somehow, not sure where that request came from that we would ask anyone to hold office space open; she asked if the State was going to try to recoup then the cost they would have received from leasing that space somewhere else. She summarized her two questions as: (1) is the Legislature going to pay for the cost to re-purpose its own square footage and (2) will we be charged for any of the vacancy rate while that remodel is being done. She then asked if there were relocations costs for the people who have to move out on behalf of us being able to move in.

MS. VARNI responded to the first question by referring Council to the bottom of the page on Scenario #5 showing tenant improvements total cost of \$3,500,000. She noted that all State agencies, when they remodel their space, are financially responsible for their improvements.

MS. MINTZ said that her office had provided LAA with some temporary space and costs they had identified should the LIO and legislative offices need to move out if the lease

was terminated. She said they do not anticipate moving anyone out of the Atwood Building to make room for the Legislature.

MS. VARNI added that the temporary space available would be at a total yearly cost of \$394,083; it includes the McKinley Building across the street, which served as temporary space during the remodel of 716 W 4th Avenue, and would offer four floors that are currently sitting vacant at between \$1.75 and \$1.95 per square foot depending on the floor. She said there's also quite a bit of space in the Alaska Legal Center at 6th and K Street by the Captain Cook Hotel.

SENATOR MACKINNON said that didn't answer her question, which was that if we were to enter into a lease in the Atwood Building to build-out the space for us, would there be a square footage cost for the time that the improvements were made and, on top of that, would there be, if somehow someone has led the Administration to believe you should just hold this open for us and not rent the space right now, are you going to try to recoup the cost of it sitting vacant. She said that's what she believed happened at the current building, that we paid rent during the period of the remodel.

MS. MINTZ said she would need to confirm with the Administration but it has been the practice that you would start paying rent the day you start physically occupying.

SENATOR MACKINNON said that sounds like a good business practice.

CHAIR STEVENS asked Ms. Varni with regard to Scenario #4 and purchasing the building, there have been some issues with this building, so what problems are we buying or will we wind up with that have not been solved to date, and for which he assumed we would be responsible for.

MS. VARNI said there have been quite a few building pressurization problems that cause the front doors and the door to the parking lot to not completely close. We did have a glass outside window shatter on the 5th floor, which took seven weeks to be replaced. We have had quite a few complaints on noise transmission between the offices; also noise transmission issues between the ABC conference rooms on the first floor; water bottle filling stations can't work with cups; multiple sidewalk ramp to garage deck heat failures; complaint from next door neighbor of ice buildup

onto their property; multiple door hold-opens in offices requiring multiple repairs throughout the building; a large water leak in Suite 216 with a frozen radiator; multiple roof leaks into a suite on the 6th floor; temperature control problems; false alarms with the fire protection system; generator not shutting off when power is restored to the building; HVAC problems in the server room; battery failures in the auto trash cans, faucets and soap dispensers; multiple elevator errors; drain traps dry which cause sewage smells; proximity card system problems; glass canopy water problems; and recently maintenance checks on the HVAC system show the system is very inefficient, that the heat and cooling are kind of chasing each other and running simultaneously in some cases, applying heat and cooling most of the time. She said we will have continuous maintenance problems and that's why they looked to add a building maintenance person. Also in the current lease, it says that they will not be doing any painting for 10 years and we do know that offices move or people want painting done, which is another reason to add a building maintenance person.

CHAIR STEVENS said that one issue that bothered him was that when they tried to hold an Executive Session in this conference room for the Ethics Committee, people in the hallway could hear what was being said. He asked if that was something that could be fixed and whether it would be expensive. This room is not soundproof.

MS. VARNI said we have not looked into trying to fix that, so she is unsure if it could be fixed nor what the cost might be. She said the glass doors may have something to do with it.

SENATOR MICCICHE said his understanding was that this building was on a warranty and asked if the building owner had been approached to correct those issues.

MS. VARNI said it has been ongoing. She said she didn't know if the landlord would be able or willing to replace the water bottle filling stations with actual drinking fountains or replace all the door closures with a different type of hardware. She said that Mike Warendt, Anchorage Information Officer, has had problems with the key locking system, so perhaps a higher quality hardware. She said that the warranty expires in January and she didn't know what the landlord was willing to do.

SENATOR MICCICHE said he doesn't have a predetermined objective on location and he doesn't have an agenda about where we go. He said he has one consideration and that's competitiveness on a cost per square foot basis, but he wants that basis to be compared apples-to-apples and he doesn't think we have that today. He asked about the Chair's timeline and is he considering a smaller task force that helps to get some of these scenarios on the table. He said he doesn't know that we've processed these numbers to a point of looking at a unit cost that varied between \$5.18 in Barrow to something less in most other locations. He doesn't think we have processed the scenarios to where we understand if we can get this location down to a competitive per square foot basis. He asked again if the Chair was thinking about a task force that gets better numbers, and answers to some of these questions to where we can make a decision. He said if we can't get more competitive, it's clear that this is a space that is not putting the Legislature on lower cost operating priorities.

CHAIR STEVENS said he was really concerned about the timeline. He said we have several timeline issues that we're facing. One issue is that we've negotiated a purchase price with Mr. Pfeffer and that price is good through the end of January 2016. We also need to send the Finance Committees a budget request and need to know what that is going to be; he reminded Council that what they will be doing is making a recommendation to the Finance Committees and, frankly, the ball stops at the Finance Committees and at the Legislature to decide how we're going to pay for all that. He said he is also concerned about the Atwood Building; if that is a serious consideration that we are making, we could dawdle our way through this and find ourselves in the same place as we did with the NANA Building - that we've waited too long and no longer is that space available. As Senator MacKinnon has said, at some point they should, and we would expect them to, begin looking for other tenants if we're not ready to make a decision. He said honestly, in working with the prior Chair, his options were very, very limited; he did not have the option in going to the Atwood Building as we do now. There were others that were involved in trying to negotiate with the Administration on that and it was simply not a possibility as he understood it. He repeated that he is really concerned about those timelines, it really puts us under the gun. We can keep fighting and arguing and kicking this can down the road; we've already done it for 10 years that he's been involved and we can keep doing it another 10 years, he supposed, and just stay right here. That's an

option. He said to fully answer the question about the price of the building, we need to hear from Serena Carlsen again because he sat in on some of those meetings for the negotiations, as did Doug Gardner, Pam Varni and Katrina Matheny of his staff, but some of them they were not privy to. It was his decision to hire an expert to do this; he said he's a history professor, what does he know about negotiating a contract. He doesn't want to be put in that position and he won't be put in that position, so we hired Serena Carlsen to do that for us. She went back and forth on various prices and wound up at this \$37,950,000 purchase price. He asked Doug Gardner if we could discuss what happened in those negotiations with Mr. Pfeffer.

MR. GARDNER said it is the Chair's decision on the scope of how to handle things. He said we've got Ms. Carlsen and Peter Shorett from Kidder Matthews who can probably answer a lot of these questions; they're on teleconference, Mr. Shorett needs to catch a ferry and we're paying them by the hour. He said at some point the members need to get this information and these are the kinds of questions he thinks can be very fluidly answered in an Executive Session; they can be answered publicly if you would like; it is the Chair's prerogative. In response to the Chair's concern about discussing legal issues in the public eye, Mr. Gardner said we are in litigation with Mr. Gottstein and there is overlap with these issues; he has made claims against us - the issue of the lease and appropriation is clearly a legal question and a money question. He recommended that Council receive that information and then choose how to relay it. It will enable you to ask a lot more questions in Executive Session and he commented that to the extent that he's answering those questions or Serena Carlsen is, that's legal advice to the Council which has traditionally been received in an Executive Session.

CHAIR STEVENS said he asked Mr. Gardner to give him a high sign if we were straying into an area that should not be in the public and so we'll take Senator MacKinnon's question and then move into Executive Session so Council has a chance to talk to Peter Shorett and Serena Carlsen who will not be available soon.

SENATOR MACKINNON said that to keep the record accurate, we just went through a laundry list of problems with this current building and she was wondering who managed the project. She asked how did we get a sound system that is louder than the walls. She said it was her understanding

that the State of Alaska took over the technical aspects of the sound system that we're currently utilizing.

MS. VARNI said that she believed that Chariot Group was hired to recommend equipment for this room, though Juli Lucky might know more. In response to a follow-up question by Senator MacKinnon, she said that the State of Alaska did not put in the equipment, it was the Chariot Group. She said she did not know if the State of Alaska picked what system was installed and would get that information to Senator MacKinnon.

SENATOR MACKINNON said that she hoped when Council came out of Executive Session, we would have a number to share with the people of Alaska about the cost of litigation in reference to any of the scenarios that have been put in front of Council.

CHAIR STEVENS said it was his intention that during Executive Session Council will be appraised of the potential costs of litigation; whether we want to share that in a public meeting or not is up to you.

SENATOR MACKINNON asked if there was a divider behind the wall so that Council is actually in Executive Session.

CHAIR STEVENS said there wasn't, but he would request Mike Warena to keep people away from the doors. In response to a request by Representative Johnson for a 10 minute recess, he said that it would take some time to go through the process to go into Executive Session and he would call folks back as soon as that was done. He asked for a motion to go into Executive Session.

[3:59:07 PM](#)

VICE CHAIR HERRON moved that Legislative Council go into Executive Session under Uniform Rule 22(B)(1), discussion of matters, the immediate knowledge of which would adversely affect the finances of a government unit and 22(B)(3), discussion of a matter that may, by law, be required to be confidential. I ask that the following individuals remain in the room; Doug Gardner, Pam Varni, Katrina Matheny, Linda Hay, and legislative staff working for Council members and that Serena Carlsen and Peter Shorett be on line. We also welcome any Legislators that are not on Legislative Council to remain in the room or online.

A roll call vote was taken.

YEAS: Stevens, Herron, Meyer, Hoffman, Huggins, MacKinnon,
Micciche, Johnson, Kito

NAYS: None

The motion was approved 9-0.

CHAIR STEVENS, in response to a request by Senator Micciche, agreed that Tanci Mintz could remain in the room for Executive Session. He noted that Council was in recess until they came back together for the Executive Session.

Legislative Council went into Executive Session.

Legislative Council came out of Executive Session.

[6:06:34 PM](#)

CHAIR STEVENS said Council had an Executive Session in which no action was taken, and he requested a motion from Vice Chair Herron.

VICE CHAIR HERRON moved that Legislative Council authorize the Legal Services Division to represent and defend the Alaska Legislature, and a former Alaska Legislator sued in the Legislator's official capacity in Patterson vs. Governor Bill Walker, et al, 1JU-15-692 CI, and to report to Council during the litigation as requested by the chairman regarding the progress of the case.

A roll call vote was taken.

YEAS: Stevens, Herron, Huggins, MacKinnon, Micciche,
Chenault, Johnson, Kito

NAYS: None

The motion was approved 8-0.

There being no further business before the committee, the Legislative Council meeting was adjourned at 6:08 p.m.

[6:07:54 PM](#)