

COMMITTEE REPORT

HOUSE

(11)

FURTHER:

3/25/85

Date: 4-24-85

The Committee on FINANCE has had HB 248

"An Act relating to leases on certain land formerly described as university-grant land; and providing for an effective date."

under consideration and recommends:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for HP. 248 (Finance) same title new title
- and recommends individual recommendations
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation Zero Fiscal Note Attached
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

[Signature]

[Signature]

[Signature]

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

[Signature]

[Signature] - no rec

[Signature]

[Signature]

[Signature]

[Signature]

CHAIRMAN

Original sponsors: Shultz, Sund,
M.M. Miller and Marrou

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 248 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to leases on certain land formerly
7 described as university-grant land; and providing for
8 an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. (a) A person and the assignee of a person who was a
11 lessee of university-grant land on June 17, 1983, and whose lease is
12 managed by the Department of Natural Resources on the effective date of
13 this Act and is in good standing, may apply to purchase the land and re-
14 quest the commissioner of natural resources to

15 (1) issue a quitclaim deed conveying the land; or

16 (2) transfer the land under a contract of sale under AS 38.-
17 05.065.

18 (b) Except as provided in (c) of this section, a lessee who holds a
19 lease of former university-grant land under AS 38.05.070 may purchase the
20 land for the lower of

21 (1) the appraised fair market value of the land under the lease
22 as specified in Appendix F of the Settlement Agreement between the Depart-
23 ment of Natural Resources, the Department of Revenue, the Department of
24 Administration, and the University of Alaska and its Board of Regents as
25 trustee for the University of Alaska as ratified in ch. 22, SLA 1983; or

26 (2) its appraised fair market value under the lease on June 17,
27 1983, as determined under AS 38.05.085(b).

28 (c) A lessee who holds a lease of former university-grant land that
29 is amended under AS 38.05.085(a) may purchase the land for the lower of

1 (1) the appraised fair market value of the land under the lease
2 as the value has been determined under Paragraph 15 of the Settlement
3 Agreement between the Department of Natural Resources, the Department of
4 Revenue, the Department of Administration, and the University of Alaska and
5 its Board of Regents as trustee for the University of Alaska as ratified in
6 ch. 22, SLA 1983; or

7 (2) its appraised fair market value under the lease on June 17,
8 1983, as determined under AS 38.05.085(b).

9 (d) A lessee who holds a lease of former university-grant land that
10 is classified as agricultural land may purchase the land under (b) or (c)
11 of this section subject to AS 38.05.321(a).

12 (e) An application to purchase under (b) and (c) of this section
13 constitutes a relinquishment of rights under the lease on

14 (1) the issuance of a quitclaim deed by the state; or

15 (2) the execution of a contract of sale under AS 38.05.065.

16 (f) Within 90 days after the effective date of this Act, the commis-
17 sioner of natural resources shall advise each lessee who may have rights
18 under this section of the enactment of this section.

19 (g) A lessee of former university-grant land who does not give the
20 commissioner of natural resources notice of an intent to purchase within
21 180 days after receiving the notice of rights provided for in (f) of this
22 section may purchase the former university-grant land for its appraised
23 fair market value at the time the notice of an intent to purchase is given.

24 (h) A lessee qualified to purchase under (b) or (c) of this section
25 may tender the commissioner an amount equal to five percent of the purchase
26 price determined under (b)(1) or (c)(1) of this section and purchase the
27 land under AS 38.05.065.

28 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
29 10.070(c).

FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CHB 248 (FIN)
 Title: University grant land leases

FISCAL DETAIL

Agency Affected: Natural Resources
 Program Category Affected: NRMEC

Sponsor: Shultz
 Requestor: _____
 Date of Request: _____

BRU, Program or Subprogram(s) Affected:
Land and Water Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL		-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar
 Division: Commissioner's Office

Phone: 465-2400
 Date: 22 March 1985

Approved by Commissioner: Mark D Arnold, Deputy
 Agency: Natural Resources

Date: 22 March 1985

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

Offered: 3/25/85
Referred: Finance

REVISED PROPOSED
AMENDMENTS FROM
DNR

Original sponsors: Shultz, Sund,
M.M. Miller and Marrou

1 IN THE HOUSE

BY THE RESOURCES COMMITTEE

2

CS FOR HOUSE BILL NO. 248 (Resources)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to leases on certain land formerly
7 described as university-grant land; and providing for
8 an effective date."

9

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10

* Section 1. (a) ^{Within one year of the passage of this act,} ~~A~~ person and the assignee of a person who was a
11 lessee of university-grant land on June 17, 1983, and whose lease ^{in good standing as} ~~is,~~ on
12 the effective date of this Act, managed by the Department of Natural Re-
13 sources may ^{apply to purchase the land and} request the commissioner of natural resources to issue a
14 quitclaim deed conveying the land.

15

(b) Except as provided in (c) of this section, a lessee who holds a
16 lease of former university-grant land under AS 38.05.070 may ^{relinquish the lease and} purchase the
17 land for the lower of

18

(1) the appraised fair market value of the land under the lease
19 as specified in Appendix F of the Settlement Agreement between the Depart-
20 ment of Natural Resources, the Department of Revenue, the Department of
21 Administration, and the University of Alaska and its Board of Regents as
22 trustee for the University of Alaska as ratified in ch. 22, SLA 1983; or

23

(2) its appraised fair market value on June 17, 1983, as de-
24 termined under AS 38.05.085(b).

25

(c) A lessee who holds a lease of former university-grant land that
26 was subject to reappraisal under AS 38.05.085(a) may ^{relinquish the lease and} purchase the land for
27 the lower of

28

(1) the appraised fair market value of the land under the lease
29 as the value has been determined under Paragraph 15 of the Settlement

1 Agreement between the Department of Natural Resources, the Department of
2 Revenue, the Department of Administration, and the University of Alaska and
3 its Board of Regents as trustee for the University of Alaska as ratified in
4 ch. 22, SLA 1983; or

5 (2) its appraised fair market value under the lease on June 17,
6 1983, as determined under AS 38.05.085(b).

7 (d) A lessee on the effective date of this Act who was a lessee on
8 June 17, 1983, and who would have been entitled to rights under former
9 AS 38.05.058 before its repeal may exercise those rights in a purchase
10 under (b) or (c) of this section.

11 (e) A lessee who holds a lease of former university-grant land that
12 is classified as agricultural land may purchase the land under (b) or (c)
13 of this section subject to AS 38.05.321(a).

14 (f) ^{Within 90 days of the passage of this act} The commissioner of natural resources shall advise each lessee
15 who may have rights under this section of the enactment of this section.

16 (g) A lessee of former university-grant land who does not give the
17 commissioner of natural resources notice of an intent to purchase within
18 180 days after receiving the notice of rights provided for in (f) of this
19 section may purchase the former university-grant land for its appraised
20 fair market value at the time the notice of an intent to purchase is given.

21 (h) A purchase of land under this section extinguishes all rights and
22 claims arising out of the lease against the state by a lessee.

23 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
24 10.070(c).

→ (i) A lessee who meets the provisions of this act
may tender the commissioner an amount equal to
five percent of the purchase price and purchase the
land under AS 38.05.065.

**STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date: April 22, 1985

*Rec'd
4-25-85*

REQUEST

Bill/Resolution No.: HB 248
Title: Pelican Land Grant

FISCAL DETAIL

Agency Affected: Natural Resources
Program Category Affected: NRMEC

Sponsor: Grussendorf
Requestor: House Finance
Date of Request: April 20, 1985

BRU, Program or Subprogram(s) Affected:
Land and Water Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						(202.5)

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

The Department projects an eventual loss of revenues that might have accrued from the sale of this land, currently estimated to be worth about \$202,500. However, the land could not be sold for at least three years because it has not been considered for disposal in the Land Availability Determination System (LADS). Thus the revenue loss is projected for FY 90 or beyond.

Prepared By: Ned Farguhar Phone: 465-2400
Division: Commissioner's Office Date: April 22, 1985

Approved by Commissioner: Wmmt J Amos, Deputy Date: April 22, 1985
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

7/1/84

ATTACHMENT #1

STATE - UNIVERSITY / LEASES

BACKGROUND:

University Trust Lands were Leased by the State, Division of Lands, during the period 1960 to 1975, as Long Term 55yr., Renewable Leases. From 1975-1977 Lessees of All State Land, (Mental Health, School, University, etc.), were appealing absorbitant rental increases, resulting in the Legislature passing New Lease, Amendment Laws in 1977, 1978, (repealing the former Disposal/Lease Laws), providing an option to "Request Conversion, prior to January 1, 1979", of State Leases in effect on or before June 23, 1977, under the "New Laws"; thereby, was to follow an executed Lease amendment. At that time All Leases of State-owned land, including Mental Health, School, Municipality, etc., were amended, and Leaseholder's were permitted to buy their lands at the amended Lease Appraisal Valuation.

With rare exception, by early 1978, University Land Leases were not amended, even though the Lessees filed Lawful "Conversion Requests", (nor allowed to be sold to an applicant) because the University objected, "At its meeting February 15-16, 1978, the Board of Regents declined to approve conversion of Leases", although dictated by the State Statutes.

The University filed a lawsuit on April 23, 1979 vs the State, "alleging mismanagement", also filing a Lis-pendens on all University Trust Land, (including Leased Land, and "some" other land, not belonging to the University). They sought an injuction to stop Lease Conversions, (Amendments), Lease Renewal, or any Dispoal thereof, seeking ultimate management of all University Lands. The State sought to enjoin the Lessees as defendants in the Suit; But failed to show the Court how Third Party Lessee's would be damaged. In February, 1981, the Supreme Court ruled that the "State, not the University, owned th Land and could dispose of it only by law, and only the Legislature makes the Law".

XXX On March 11, 1982, the State and University entered into a tentative, (without prejudice), "Settlement Agreement", subject to ratification by the Legislature. Whereby: Compensation for Damages by the State would be paid; Leases were agreed to be binding, and management would be continued by the State, until transfer was requested by the University; Lease Conversion, (Amendments) could finally be completed; All University Lands would be conveyed to the University by the State, except any "unduly encumbered land, including any Lease's" the University elected not to retain, which would be replaced by other State land. Legislative concurrance and the Governors approval finally occurred on June 17, 1983, thru passage of SB 41. During this time Leaseholders complained to Legislators of their ongoing plight, and the Unversity decided to give up ALL Leased Land to the State, and to speed up the schedule of reconveyance of Leases. Thru all this time the Lis-pendens has remained, until the final reconveyance.

XXX In the meantime, following the March 11, 1982, tentative "Settlement Agreement", the Division of Lands started processing University Lease (Amendments), which still remained unexecuted by the Lessor and Lessee, subsequent to the "Conversion Request" Agreement (to Amend), previously entered into by the Lessee and the State prior to 1-1-79. The old 1977, 1978 paperwork was dug out, completely ignoring a Lease Conversion Amendment to the 1977, 1978 Lease Conversion Laws enacted in 1981, (SLA 113, Sec.44.), and made effective retroactively to July 18, 1978. THREE different Conversion Law provisions could now apply; per the "REQUEST" Agreement, Stipulating Provisions/Instructions on back.

(1) 1977 Conversion Law created "New" lease, (rental) based on last appraisal prior to 1-1-75 brought forward to 1-1-76 @ 10% a year, or, if leased after 1-1-75 @ the original lease rate.

(2) 1978 Conversion Law "Amends" lease, (rental) based on last appraisal prior to 1-1-75 brought forward to 1st quarter following request @ 10% a year, or, if leased after 1-1-75 @ the original leased rate". (SLA 182, Sec.21. "If leased after 1-1-75 a New lease is the fair market value brought forward to conversion date @ 10% per year).

(3) 1981 (SLA 113, Sec.44., Retroactive to 7-18-78) Conversion Law "Amends" lease, (rental) based on last appraisal prior to 1-1-74 brought forward to 1st quarter following request @ 10% a year, or, if leased after 1-1-74 @ 10% per year to date of request.

XXX "A YEAR" is compounded; XXX "PER YEAR" is straight Annual Interest.

The Division of Lands, offered only ONE provision to all University Land Lessee's, which included AGREEING to NOW execute a Lease Amendment (@ approximately Double the current rental rate), unnecessarily back-dating the Amendment, retroactively to 1979, or earlier; Also, demanding the immediate payment of a retroactive Compounded rental rate increase, (Lessee's had never been notified of any "additional", accruing, rental-billing, prior to this demand). The Lessee's were forced to pay-up, or supposedly "lose their rights" under the provisions of the "Amended Lease Law" now in effect.

ISSUES:

Since the Lessee's were innocent Third Parties to the lawsuit between the University and the State, and the land was in limbo, the Lessee's feel the inequity they suffered was a gross injustice, which they had no control over. The only thing Lessee's could do during this period, was pay the Lease expenses, and the Taxes, and pray for a just outcome. In the interim: Lessee's lost the opportunity to utilize their Residency Credits, for purchase of their Leased Land; They had to forestall plans for building, improving, or even retiring. Some have died; and some just gave up!

Since it has been the policy of the State to dispose of lands to its citizens, allowing a preference right to Leaseholders; due to the forestated circumstances, it is respectfully requested the State agree "It is in the best interest of the State" to offer to sell its Equity in these leased lands to the present Lessee's, under an equitable, applicable Preference Right Statute, such as AS 38.05.035(b)2.

FOLLETT & ASSOCIATES

4141 B Street, Suite 402, Anchorage, Alaska 99503 (907) 562-4279



Richard H. Follett, MAI
Eric G. Follett, MAI

February 18, 1985

Ms. Bev Aleck
2524 Redwood
Anchorage, Alaska 99504

Regarding: Former University of Alaska Lands leased
by the State of Alaska.

Dear Ms. Aleck:

The following letter sets forth the terminology, definitions and appraisal practices used in valuing real estate, when the property is affected by a lease. The eighth edition of The Appraisal of Real Estate, published by the American Institute of Real Estate Appraisers states, "The bundle of rights Theory holds that total real property ownership, or title in fee, includes several distinct rights, each of which can be separated from the bundle and conveyed by the fee owner to other parties in perpetuity or for limited time periods. When a right is separated from the bundle and transferred, a partial, or fractional property interest is created.

"Lease practice is one practical application of the Bundle of Rights Theory. An owner of the total bundle (a lessor) may convey to a tenant (a lessee) rights to use and occupy a property for a fixed time period. In return, the tenant assumes an obligation to pay an agreed upon periodic rent."

It goes on to say that, "A leasehold interest is said to have value when contract rent is less than market rent, which is the amount a property could earn in a competitive real estate market. Market rent is not profit from a business operated on the premises. It is the rent the real estate could command in the market. In a perfectly negotiated lease, contract rent would probably not differ from market rent. When market rent exceeds contract rent, the leasehold interest acquires value."

Under the Canons and Regulations of the American Institute of Real Estate Appraisers, it would be unethical for an appraiser to render an opinion of market value for a property, and not take into consideration the effect of any leases on that property. If the tenant had a favorable lease at below market rent, whereby a leasehold interest existed, the market value of the property would be of the leased fee estate, which can be found by deducting the value of the leasehold interest from the total property value in fee simple. It would be unethical for the appraiser to merely value the property in fee simple and not take into account a favorable lease creating a leasehold interest by the lessee.

REAL ESTATE APPRAISERS • CONSULTANTS • MARKET ANALYSTS

At this point it may be helpful to define some of the terms used in this letter:(1)

- Lessor - One who holds title and conveys the right to use and occupy a property under a lease agreement.
- Lessee - One who possesses the right to use or occupy a property under lease agreement.
- Lessor's Interest - Leased Fee Interest - The present (discounted) value of the contract (lease) rents in addition to the present (discounted) value of the reversion (a leased fee).
- Lessee's Interest - The market value of the property less the value of the lessor's interest.
- Leasehold Value - The value of the leasehold interest; that is, the right to the use, enjoyment and profit existing by virtue of the rights granted under a lease instrument. The value of the leasehold interest is the present (discounted) worth of the rent saving, when the contractual rent at the time of appraisal is less than the current market rent.
- Reversion - The returning of an item of real estate to its grantor, such as the return of the future use of real estate to a lessor at the expiration of the lease controlling it.

In the case of the University of Alaska Lands, which were leased by the State of Alaska, these properties all have an existing valid lease which must be taken into consideration when an appraiser estimates the current market value of the property. The State of Alaska is the lessor and owns the leased fee interest, which is the right to receive rent and to get the property back at the end of the lease.

The individual leaseholders own the leasehold interest, which is the right to use the property for a specific period of time, and may include improvements to the property or subleasing.

- (1) Definitions are from the Appraisal Terminology and Handbook, published by the American Institute of Real Estate Appraisers.

Most of the University Land Leases were made in the early 1970's, and contain a clause allowing the lease payment to be increased to market rent upon reappraisal every five years. They were 55 year leases with an option to renew the lease for an additional 55 years at market rent.

In the late 1970's the State offered a conversion program whereby the lessees could convert the lease to a level payment, 25-year lease, after which the lease payment could be increased on every ten year anniversary, but the lease payment could not be greater than 150% of the payment during the previous 10 year period.

In all the instances reviewed by the appraiser, this created a substantial leasehold interest for the lessees.

The State of Alaska is now offering to sell the properties to the leaseholders. Since the properties are affected by valid leases, and the lessees have a saleable leasehold interest, the market value of the portion of the property owned by the State of Alaska is the leased fee interest.

In the Addenda of this letter, is an example analysis of a leased property which has been patterned after an actual leasehold under consideration. The assumptions in this example are as follows:

Current Land Value: \$280,000 (160 acres @ \$1,750/acre)
Beginning of Lease: 7/23/74
End of Lease: 7/23/2029
Lease Term: 55 years
Option: Additional 55 years at market rent.
Lease Rate: 25-year level payment at \$950 per quarter beginning 1/23/78. The lease rate may increase up to 50% of the previous period every 10 years.

A survey of land leases in the market indicates that land lease rates for this type property would be about 8% of value annually. This would indicate a quarterly lease payment of \$5,600 ($.08 \times \$280,000 \div 4 = \$5,600$). The lessee has a substantial leasehold advantage of \$4,650 per quarter (\$5,600 less \$950 equals \$4,650). A typical investor would expect this property to increase in value approximately 70% every 10 years. For example, a property valued at \$20,000 today would be worth \$34,000 ten years hence. Thus, the lease advantage will increase over time, since the lease payment is level for 25 years and then only can be increased 50% every 10 years.

The lease goes to market rent at the beginning of the option period during the 55-year option. Therefore, the lessee's leasehold interest is calculated for only the initial 55 year term of the lease.

The underlying logic for estimating the market value of the leasehold interest, or the leased fee interest, is that a person would not pay a dollar today for a dollar received in the future. The difference in the amount paid is reflected by the discount rate, or interest rate.

Addendum A represents the calculations for a leased fee interest where the property is leased under the above terms and conditions, except the lease payment is at market rent and can be increased every 10 years. It shows that the present value of the discounted lease payments at 12% interest, plus the present value of the reversion of the property at 12% interest equals the present value of the property in fee simple. This calculation is used to check the assumptions and discount rates to make sure the discounted cash flows of the model equals the current fee simple market value of the property.

Addendum B shows the calculations for the leased fee interest using the discount rates from the model and applying the terms and conditions of the lease to this property. This example shows the leased fee interest has a current value of \$50,733. This is the State of Alaska's Leased Fee Interest. Subtracting this amount from the value in fee simple of \$280,000 indicates that the leasehold interest is worth \$229,267.

As a check against these calculations, the appraiser can also estimate the value of the leasehold interest directly. It is based on the discounted cash flow of the rental advantage from the lease. During each time period, the rental advantage between market rent and the rent stated in the contract is discounted to present value.

Addendum C summarizes these calculations, indicating a total leasehold interest based on the above lease information and assumptions, of \$228,470. Adding the estimated value of the leased fee interest yields a total property value estimate of \$279,203, ($\$228,470 + \$50,733 = \$279,203$) which is very close to the current market value of the property (\$280,000).

It is the appraiser's hope that the example outlined in the Addenda will help clarify the University Land Leasehold situation and help identify the proper procedure to estimate the current market value of a property involving a lease. This paper shows the method of valuing both a Leased Fee Interest and the Leasehold Interest.

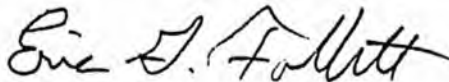
It is interesting to note that in this example, if the lease continues, the State of Alaska will receive a total of \$294,262 in lease payments, plus the right to get back the property (the reversion) at the end of the lease, at which time the property will have appreciated to an estimated value of \$2,970,000.

Alternately, if the State of Alaska sells its Leased Fee Interest for \$50,733 (see Addendum B), and puts the money in an account receiving 10% interest compounded monthly, the investment would grow to \$4,265,000 by the end of the lease (7/23/2029).

I would like to reemphasize that when a property is appraised for "Fair Market Value" and there is an existing lease, the appraiser must analyze the lease, and appraise the Leased Fee Interest (sometimes called Leased Fee Estate).

If we can be of any further help to you regarding the analysis of leases, please call us.

Sincerely yours,
FOLLETT & ASSOCIATES



Eric G. Follett, MAI

ADDENDUM A

Leased Fee Interest Calculations - at Market Rents

As a check of the model, if we apply a market rent to the lease of a \$280,000 property. The Present Worth of the lease payments and reversion should equal today's market value of the property.

Annual market rent would be 8% of land value (8% x \$280,000 = \$22,400), or \$5,600 quarterly. An investor would also expect land values to increase 70% every 10 years, which would also increase the rent 70% every 10 years.

1st Period - 1/23/85 to 1/23/95

The Present Worth Factor for 40 quarters at 12% interest is 23.808 (from Compound Interest Tables).
The lease rate is \$5,600

$\$5,600 \times 23.808 =$ \$133,326

2nd Period - 1/23/95 to 1/23/2005

The Present Worth Factor for 40 quarters, deferred 40 quarters at 12% interest is (31.107 - 23.808) = 7.299
The lease rate can be increased by 70% to \$9,520.

$\$9,520 \times 7.299 =$ \$ 69,486

3rd Period - 1/23/2005 to 1/23/2015

The Present Worth Factor for 40 quarters, deferred 70 quarters at 12% interest is (33.344 - 31.107) = 2.237.
The lease rate can be increased by 70% to \$16,184.

$\$16,184 \times 2.237 =$ \$ 36,204

4th Period - 1/23/2015 to 1/23/2025

The Present Worth Factor for 40 quarters, deferred 120 quarters at 12% interest is (34.030 - 33.344) = .686.
The lease rate can be increased 70% to \$27,513.

$\$27,513 \times .686 =$ \$ 18,874

5th Period - 1/23/2025 to 7/23/2029

The Present Worth Factor for 18 quarters, deferred 160 quarters at 12% interest is (34.155 - 34.030) = .125.
The lease rate can be increased 70% to \$46,771.

$\$46,771 \times .125 =$ \$ 5,846

Present Worth of Market Lease Payments \$263,736

Present Worth of Reversion

The estimated land value in year 2029 is \$2,970,000, which reflects a 70% increase in land value every 10 years, simple interest.

Present Worth Factor for \$1.00 received after 178 quarters at 12% annual interest is .0052

$\$2,970,000 \times .0052 =$ + 15,444

Total Indicated Present Value of Lease Payment and Reversion \$279,180

The model checks, since this is equal to the current value of the property in fee simple interest.

ADDENDUM B

Leased Fee Interest Calculations - Based on the Lease Terms

The "converted" lease states the quarterly rent on this property is \$950 until 1/23/2003. The payment can then be increased up to 50% every 10 years.

1st Period - 1/23/85 thru 1/23/2003

The Present Worth Factor for 72 quarters at 12% interest is 30.246. The current lease rate is \$950 per quarter.

$$\$950 \times 30.246 = \$28,734$$

2nd Period - 1/24/2003 thru 1/23/2013

The Present Worth Factor for 40 quarters, deferred 72 quarters at 12% interest is $(33.080 - 20.246) = 2.834$. The lease rate can be a maximum of \$950 plus 50%, or \$1,425.

$$\$1,425 \times 2.834 = \$4,038$$

3rd Period - 1/24/2013 thru 1/23/2023

The Present Worth Factor for 40 quarters, deferred 112 quarters at 12% interest is $(33.949 - 33.080) = .869$. The lease payment can be a maximum of \$1,425 plus 50%, or \$2,137.50

$$\$2,137.50 \times .869 = \$1,857$$

4th Period - 1/24/2023 thru 7/23/2029

The Present Worth Factor for 26 quarters, deferred 152 quarters at 12% interest is $(34.155 - 33.949) = .206$. The lease payment can be a maximum of \$2,137.50 plus 50%, or \$3,206.25.

$$\$3,206.25 \times .206 = \$660$$

Present Value of Lease Payment \$35,289

Reversion

At the end of the 55 year lease the leaseholder has the option of renewing the lease for another 55 years, but the lease payment can be increased to market rent. Thus, the appraiser assumes that the leaseholder would no longer have a leasehold interest at that point, and the value of the Leased Fee Interest would equal the value of the Fee Simple Interest. The estimated value of the property in the year 2029 is \$2,970,000, which reflects a 70% increase in land value every 10 years.

Present Value of Reversion

Present Worth Factor for \$1 received after 178 quarters at 12% annual interest is .0052.

$$\$2,970,000 \times .0052 = \$15,444$$

Total Estimated Market Value of Leased Fee Interest \$50,733

Note: This represents the market value of the State of Alaska's Leased Fee Interest in the property.

ADDENDUM C

Leasehold Interest Calculations

Based on Lease Terms and Investor Expectations in Market

Period - 1/23/85 thru 1/23/95

PW of the rental advantage of \$4,650 (\$5,600 - \$950)
per quarter for 40 quarters discounted at 12% interest.
The Factor is 23.808

\$4,650 x 23.808 = \$110,708

Period - 1/23/95 thru 1/23/2003

Present Worth of the Rental Advantage of \$8,570
(\$9,520 - \$950) discounted at 12% interest for
32 quarters, deferred 40 quarters. The Factor
is 30.246 - 23.808 = 6.438

\$8,570 x 6.438 = \$ 55,174

Period - 1/23/2003 thru 1/23/2005

Present Worth of the Rental Advantage of \$8,095
(\$9,520 - \$1,425) discounted at 12% interest for
8 quarters, deferred 72 quarters.
The Factor is 31.107 - 30.246 = .861

\$8,095 x .861 = \$ 6,968

Period - 1/23/2005 thru 1/23/2013

Present Worth of the Rental Advantage of \$14,759
(\$16,184 - \$1,425) discounted at 12% interest
for 32 quarters, deferred 80 quarters.
The Factor is 33.080 - 31.107 = 1.973

\$14,759 x 1.973 = \$29,125

Period - 1/23/2013 thru 1/23/2015

Present Worth of the Rental Advantage of \$14,046
(\$16,184 - \$2,138) discounted at 12% interest
for 8 quarters, deferred 112 quarters.
The Factor is 33.344 - 33.084 = .264

\$14,046 x .264 = \$ 3,711

Period - 1/23/2015 thru 1/23/2023

Present Worth of the Rental Advantage of \$25,375
(\$27,513 - \$2,138) discounted at 12% interest
for 32 quarters, deferred 120 quarters.
The Factor is 33.949 - 33.344 = .605

\$25,375 x .605 = \$15,357

Period - 1/23/2023 thru 1/23/2025

Present Worth of the Rental Advantage of \$24,307
(\$27,513 - \$3,206) discounted at 12% interest
for 8 quarters, deferred 152 quarters.
The Factor is 34.030 - 33.949 = .081

\$24,307 x .081 = \$ 1,972

Period - 1/23/2025 thru 1/23/2029

Present Worth of the Rental Advantage of \$43,565
(\$46,771 - \$3,206) discounted at 12% interest
for 18 quarters, deferred 160 quarters.
The Factor is 34.155 - 34.030 = .125

\$43,565 x .125 = + \$ 5,455

Total Discounted Present Value of Leasehold Interest \$228,470

Add: Leased Fee Interest +50,733

TOTAL of Leasehold and Leased Fee Interests \$279,203

Note: This is equal to the value in Fee Simple of \$280,000, which provides a check against the assumptions and calculations.

APPRAISER'S QUALIFICATIONS

ERIC G. FOLLETT, MAI

American Institute of Real Estate Appraisers, Designation — MAI



EDUCATION

College: B.S. in Mathematics, University of Washington, 1973

Courses: American Institute of Real Estate Appraisers:

AIREA Course IA - Seattle Pacific, 1974

AIREA Course IB - University of Portland, 1977

AIREA Course II - University of Colorado, 1978

AIREA Course IV - Litigation - U. of Portland, 1980

BUSINESS EXPERIENCE

Appraiser - FOLLETT & ASSOCIATES, Anchorage, AK, 1/77 to present

Appraiser - ERICKSON & ASSOCIATES, Anchorage, AK, 4/75 to 7/81

Programer/Analyst - SAFECO INSURANCE CO., Seattle, WN, 3/73 to 4/75

SCOPE OF ASSIGNMENTS

Appraisals of commercial property, office buildings, medical buildings, industrial buildings, residential, special use properties and vacant land. Feasibility studies, and Consulting. Qualified as an expert witness. Assignments located in Municipality of Anchorage, Matanuska-Susitna Borough, Kenai Borough, Valdez, Cordova, Seward, Kodiak, Bethel, Dutch Harbor, Juneau, Haines, Sitka, and numerous "Bush Communities".

MAJOR ASSIGNMENTS (over \$1,000,000)

Jewel Lake Shopping Center & Bowling Alley, Anchorage
Alaska Hospital & Professional Building, Debarr Rd., Anchorage
Eastgate Shopping Center, Boniface Parkway, Anchorage
"Alyeska" Office Building Complex, Bragaw Street, Anchorage
Viewpoint Subdivision - 128 Lots
Bowling Alley and Bar, Sitka, Alaska
Vagabond Mobile Home Park, Anchorage, Alaska
Medical Clinic, Anchorage, Alaska
"Cottonwood Village" Condominiums - 104 Units
Wasilla Business Park, Wasilla, Alaska
Apartment Complex - 24-unit, Kenai, Alaska

TYPICAL CLIENTELE

All major Banks in Alaska
Carr-Gottstein Properties
Jack White Company
Area Realtors
Bureau of Land Management
Hines Investments
State of Alaska Division of Parks

Alaska State Housing Authority
Calista Native Corporation
Kuskokwim Management Corp.
Parker Drilling Company
Union Oil Company
Professional Contractors
U.S. Postal Service

Offered: 3/25/85
Referred: Finance

Original sponsors: Shultz, Sund,
M.M.Miller and Marrou

1 IN THE HOUSE BY THE RESOURCES COMMITTEE
2 CS FOR HOUSE BILL NO. 248 (Resources)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to leases on certain land formerly
7 described as university-grant land; and providing for
8 an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. (a) A person and the assignee of a person who was a
11 lessee of university-grant land on June 17, 1983, and whose lease is, on
12 the effective date of this Act, managed by the Department of Natural Re-
13 sources may request the commissioner of natural resources to issue a
14 quitclaim deed conveying the land.

15 (b) Except as provided in (c) of this section, a lessee who holds a
16 lease of former university-grant land under AS 38.05.070 may purchase the
17 land for the lower of

18 (1) the appraised fair market value of the land under the lease
19 as specified in Appendix F of the Settlement Agreement between the Depart-
20 ment of Natural Resources, the Department of Revenue, the Department of
21 Administration, and the University of Alaska and its Board of Regents as
22 trustee for the University of Alaska as ratified in ch. 22, SLA 1983; or

23 (2) its appraised fair market value on June 17, 1983, as de-
24 termined under AS 38.05.085(b).

25 (c) A lessee who holds a lease of former university-grant land that
26 was subject to reappraisal under AS 38.05.085(a) may purchase the land for
27 the lower of

28 (1) the appraised fair market value of the land under the lease
29 as the value has been determined under Paragraph 15 of the Settlement

1 Agreement between the Department of Natural Resources, the Department of
2 Revenue, the Department of Administration, and the University of Alaska and
3 its Board of Regents as trustee for the University of Alaska as ratified in
4 ch. 22, SLA 1983; or

5 (2) its appraised fair market value under the lease on June 17,
6 1983, as determined under AS 38.05.085(b).

7 (d) A lessee on the effective date of this Act who was a lessee on
8 June 17, 1983, and who would have been entitled to rights under former
9 AS 38.05.058 before its repeal may exercise those rights in a purchase
10 under (b) or (c) of this section.

11 (e) A lessee who holds a lease of former university-grant land that
12 is classified as agricultural land may purchase the land under (b) or (c)
13 of this section subject to AS 38.05.321(a).

14 (f) The commissioner of natural resources shall advise each lessee
15 who may have rights under this section of the enactment of this section.

16 (g) A lessee of former university-grant land who does not give the
17 commissioner of natural resources notice of an intent to purchase within
18 180 days after receiving the notice of rights provided for in (f) of this
19 section may purchase the former university-grant land for its appraised
20 fair market value at the time the notice of an intent to purchase is given.

21 (h) A purchase of land under this section extinguishes all rights and
22 claims arising out of the lease against the state by a lessee.

23 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
24 10.070(c).

Introduced: 3/1/85
Referred: Resources and
Finance

1 IN THE HOUSE

BY SHULTZ, SUND, M.M. MILLER
AND MARROU

2

HOUSE BILL NO. 248

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to leases on certain land formerly
7 described as university-grant land; and providing for
8 an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. (a) A person and the assignee of a person who was a
11 lessee of university-grant land on June 17, 1983, and whose lease is, on
12 the effective date of this Act, managed by the Department of Natural Re-
13 sources may request the commissioner of natural resources to issue a patent
14 to the land.

15 (b) A lessee who holds a lease of former university-grant land under
16 AS 38.05.070(c) may purchase the land for the lower of

17 (1) the appraised fair market value of the land as it is set out
18 in Appendix F of the Settlement Agreement between the Department of Natural
19 Resources, the Department of Revenue, the Department of Administration, and
20 the University of Alaska and its Board of Regents as trustee for the Uni-
21 versity of Alaska as ratified in ch. 22, SLA 1983; or

22 (2) its appraised fair market value on June 17, 1983, as de-
23 termined under AS 38.05.085(b).

24 (c) A lessee who holds a lease of former university-grant land under
25 AS 38.05.085(a) may purchase the land for the lower of

26 (1) the appraised fair market value of the land under the lease
27 as the value has been determined under Paragraph 15 of the Settlement
28 Agreement between the Department of Natural Resources, the Department of
29 Revenue, the Department of Administration, and the University of Alaska and

1 its Board of Regents as trustee for the University of Alaska as ratified in
2 ch. 22, SLA 1983; or

3 (2) its appraised fair market value under the lease on June 17,
4 1983, as determined under AS 38.05.085(b).

5 (d) A lessee on the effective date of this Act who was a lessee on
6 June 17, 1983, and who would have been entitled to rights under former
7 AS 38.05.058 before its repeal may exercise those rights in a purchase
8 under (b) or (c) of this section.

9 (e) A lessee who holds a lease of former university-grant land that
10 is classified as agricultural land may purchase the land under (b) or (c)
11 of this section subject to a reservation by the state of all interests
12 except agricultural rights.

13 (f) The commissioner of natural resources shall advise each lessee
14 who may have rights under this section of the enactment of this section.

15 (g) A lessee of former university-grant land who does not give the
16 commissioner of natural resources notice of an intent to purchase within
17 180 days after receiving the notice of rights provided for in (f) of this
18 section may purchase the former university-grant land for its appraised
19 fair market value at the time the notice of an intent to purchase is given.

20 * Sec. 2. This Act takes effect immediately in accordance with AS 01.-
21 10.070(c).