

**H C R**

**52**

HOUSE COMMITTEE ON STATE AFFAIRS

RECAP OF  
HCR 52

State Leasing of Space

Received February 12, 1990  
by Rep. Ulmer

Heard February 27, 1990

Adopted CSHB 52 (SA) February 27, 1990

Passed Out of Committee February 27, 1990  
3 Do Pass  
2 Do Not Pass

## TABLE OF CONTENTS

### HCR 52: State Leasing of Space

- Item 1:** HCR 52 by Rep. Ulmer  
CSHCR 52 (SA)
- Item 2:** Fiscal Note by House State Affairs  
Fiscal Note by Dept. of Administration (Not Adopted)
- Item 3:** Memorandum from Rep. Ulmer,  
February 27, 1990
- Item 4:** Resolution: State Building Lease Procedures
- Item 5:** *Alaska Designs* "Acquisition of State Facilities  
Via Capital Lease"

# HOUSE COMMITTEE REPORT

(7)

Date Referred: February 12, 1990

FURTHER REFERRALS:

FINANCE

Date of Committee Action: \_\_\_\_\_

The STATE AFFAIRS Committee considered:

HCR 52

HOUSE CONCURRENT RES. NO. 52

STATE LEASING OF SPACE

Relating to the leasing of space by the state.

RECOMMENDATIONS:

- be replaced with C.S HCR 52(SA)  the same title  
 a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):  
(Dept)

APPROVES PREVIOUS:  
(Date/Dept)

- fiscal impact \_\_\_\_\_
- zero fiscal note HSA
- zero with analysis \_\_\_\_\_

- fiscal note(s) \_\_\_\_\_
- zero fiscal note(s) \_\_\_\_\_
- zero fn/analysis \_\_\_\_\_

SIGNING DO PASS:

SIGNING:  
(Check approp. column)

Do Not  
Pass  
No Rec  
Amend

David D. [Signature]

[Signature]

[Signature]

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

	Do Not Pass	No Rec	Amend
<u>[Signature]</u>	✓		
<u>[Signature]</u>	✓		
<u>Hidden Fiscal Note Enclosed</u>			
_____			
_____			
_____			
_____			
_____			
_____			

[Signature]  
Chairman's Signature

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

BILL VERSION: \_\_\_\_\_  
PUBLISH DATE: \_\_\_\_\_

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: State Leasing of Space

Agency Affected: Dept. of Administration  
BRU: \_\_\_\_\_

Sponsor: Ulmer  
Requestor: \_\_\_\_\_

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

No fiscal impact.

Prepared by: House State Affairs  
Division: \_\_\_\_\_  
Approved by Commissioner: H. A. "Red" Boucher  
Agency: \_\_\_\_\_

Phone: 465-4963  
Date: Feb 27, 1990  
Date: Feb 27, 1990

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)

DEPT  
10-10

STATE OF ALASKA  
1990 LEGISLATIVE SESSION

NO FKU

Item 2

Bill Version: HCR 52  
Publish Date:

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: Department of Administration  
Title: House Concurrent BRU: Leasing and Facilities  
Resolution No. 52  
Sponsor: Ulmer Components: Leases  
Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	12.8	26.6	27.5	28.5	59.0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	5.5	228.0	450.4	425.1	944.6	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	18.3	254.6	477.9	453.6	1,003.6	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	18.3	254.6	477.9	453.6	1,003.6	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	18.3	254.6	477.9	453.6	1,003.6	0

POSITIONS:

FULL-TIME	0	0	0	0	1	0
PART-TIME	1	1	1	1	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

There is no fiscal impact on FY 90.  
(See attached analysis)

Prepared by: Robert J. Link, Director  
Division: General Services and Supply  
Approved by Commissioner: Frank S. Baxter  
Agency: Department of Administration

Phone: 465-2250  
Date: 2/26/90  
Date: 2/26/90

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

FISCAL NOTE ANALYSIS

For HCR 52

Currently, the State has 12 leases for office space, in excess of the 10,000 square foot threshold in HCR 52, that will be expiring without renewal options and have not already been rebid. These 12 leases contain approximately 450,000 square feet at a combined monthly cost of \$816.9.

ASSUMPTION:

Increase Lease Costs

The current average cost per square foot of the existing leases procured through Invitations to Bid (ITB) is \$1.82.

The current high cost per square foot based on leases procured through ITB is \$2.58.

The difference between the current average cost and the current high cost per square foot is \$.76.

For the purpose of this fiscal note, we assumed the average increase in the cost per square foot of space procured through a Request for Proposal (RFP) to be \$.38.

The expiration schedule for the next six fiscal years and the estimated additional cost each year is:

- FY 91: 0 leases of 10,000 square feet expire in FY 91.
- FY 92: 3 leases = est. 50,000 square feet x \$.38/mo. = \$228.0\*
- FY 93: 3 leases = 98,778 square feet x \$.38/mo. = \$450.4\*
- FY 94: 4 leases = 93,217 square feet x \$.38/mo. = \$425.1\*
- FY 95: 2 leases = 207,152 square feet x \$.38/mo. = \$944.6\*
- FY 96: 0 leases of 10,000 square feet expire in FY 96.

\* Annual Costs

\*\*\*\*\*

Training Costs

Since the contracting officers who would be involved in the preparation of RFPs have had no formal training and little experience in issuing RFPs, approximately \$5.5 would be required to provide training in the RFP process.

Personal Services

Bids for lease space are among the most time consuming and difficult bids prepared by the contracting officers. The procurement through a Competitive Sealed Proposal will involve more preparation time and evaluation time than a Competitive Sealed Bid for lease space.

We estimate that development of the initial RFP conditions for proposals will take approximately three months of staff time.

The additional staff time to prepare, evaluate all offers (rather than just the low bid), and answer protests related to the use of a Competitive Sealed Proposal, is expected to add approximately six Purchasing Agent III staff months of work during each year in FY 92-94. In FY 95, due to the complexity of the two replacement leases of 207,152 square feet, we estimate a need for one additional Purchasing Agent III.

Item 3

# Alaska State Legislature

## HOUSE OF REPRESENTATIVES



### REPRESENTATIVE FRAN ULMER

#### MEMORANDUM

TO: Rep. Red Boucher, Chair  
Members, House State Affairs Committee

FROM: Rep. Fran Ulmer

DATE: February 27, 1990

RE: HCR 52-relating to state leasing

Many state agencies have turned to the capital lease process as a means of acquiring badly needed new facilities because of the lack of state funds needed to finance construction of office buildings. These facilities are designed, constructed, financed and often operated by the successful bidder. The building is essentially purchased by the state on the "installment plan" utilizing funds from the agency's operating budget. At the conclusion of the term of the lease, which may be 20 years or more, ownership of the facility usually reverts to the state, often after payment of a final lump sum.

A major problem with this process is that it lacks virtually all of the controls normally placed on development of new public facilities. The bids are usually awarded only on the basis of lowest rental cost and do not necessarily take into consideration building standards of the host community, the long term maintenance and operations costs or the functional needs of the agency.

HCR 52 requests that as the state enters into capital lease contracts, criteria in addition to price, including functionality, public convenience, design and appearance be taken into consideration.

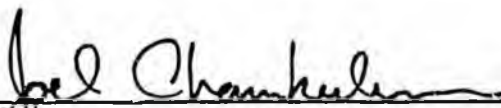
District 4B — Juneau

P.O. Box V • Juneau, Alaska 99811-3100 • (907) 465-4947

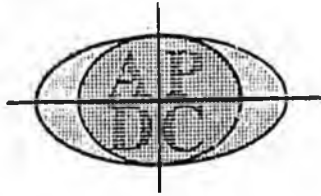
**RESOLUTION  
STATE BUILDING LEASE PROCEDURES**

- Whereas, the Alaska Chapter of the American Institute of Architects promotes quality design and construction practices throughout the State, and
- Whereas, the Department of Administration, other State agencies and other political subdivisions for the State of Alaska have been procuring new building space through a process which solicits bids for lease space normally resulting in new construction, and
- Whereas, the contractor with the lowest lease price and cheapest cost will be the successful bidder for such State space, and
- Whereas, this process is not required to consider the quality of building design, site design, regional planning, construction quality, or operation and maintenance costs, and
- Whereas, such omission harms the long term interest of the State and the affected communities because of the low quality design, planning and construction which inevitably occurs,
- Therefore, be it resolved that the Alaska Chapter of the American Institute of Architects, strongly urges that the Governor's Office and Department of Administration revise this bid process to include qualitative criteria for design, site planning, interior amenity, and maintenance and operation costs so that the State agencies and communities affected receive building projects with acceptable design and construction quality.

Unanimously adopted this date, November 10, 1989.

  
\_\_\_\_\_  
President

  
\_\_\_\_\_  
Secretary



# Alaska Designs

Volume 12, No. 11, December 1989

The Official Newsletter of the Alaska Professional Design Council

## Acquisition of State Facilities Via Capital Lease

by Jack Wolever, AIA

Given current political and economic environments, most state agencies find it almost impossible to obtain funding for needed facilities through capital appropriations. The conventional process of constructing new state buildings -- an appropriation from the legislature, selection of architects and engineers, programming and design, competitive bids, and construction -- is simply no longer accessible to most state agencies because of economic or political constraints.

Several state agencies have turned to the capital lease process as a means of acquiring new facilities. These facilities are designed, constructed, financed, and often operated and maintained by the successful bidder. The building is essentially purchased by the agency on the "installment plan" utilizing funds from the agency operating budget. At the conclusion of the term of the lease, the facility ownership usually reverts to the state, often after payment of a final lump sum amount to the bidder. The capital lease process is made possible because many agencies have accommodated space needs over the years through rental of increasing amounts of office space which is frequently scattered throughout a community. Consolidation of rental space and agency functions increase the buying power and the efficiency of the agency -- powerful arguments for capital lease facility acquisition.

It is critical, however, that those individuals responsible for facility acquisition and management ensure that buildings acquired via capital lease are good investments for the state. Buildings which are functionally unreliable or unsuccessful are frustrating to the personnel who utilize them. Buildings which are poorly designed and constructed are expensive to operate and maintain and can have such a short useful life span that they are of little value at the conclusion of the term of lease when ownership is transferred to the state. It is the responsibility of an agency's facilities management group to ensure that such problems do not compromise the acquisition of a new building.

A publication entitled Design/Build/Bid Considerations for Participants was prepared in 1986 by an ad-hoc committee of Alaskan architects, engineers, contractors, and facility planning experts to inform public sector building owners about the process of acquiring facilities through design/build/bid. The process described differs from the capital lease process currently utilized by the state in several very important areas.

Critical to the success of a design/build/bid project is preparation of a detailed facility program describing the functional needs of the agency, and performance specifications describing a minimum level of quality for building components and systems. Equally important is preparation of a format for evaluating bidder's proposals in order to obtain from each bidder a design for the best possible building that can be provided within the limits defined by the performance specifications and the project budget.

Having participated in numerous design/build/bid public works projects in Alaska and California, it has been my experience that a consultant with experience in preparing D/B/B RFPs is needed to prepare the program, performance specifications, and evaluation format. With regard to evaluation of proposals, this typically involves both objective judgements, such as awarding points for exceeding minimum energy performance standards, and subjective judgements, such as awarding points for quality of architectural design and site planning functionality. Project cost can be dealt with by either establishing a price to be paid and allowing the bidders to provide the best facility achievable within that constraint, or by allowing the cost to be another variable in the evaluation format.

State agencies that are normally in the business of leasing facilities lack the professional expertise required to prepare a D/B/B RFP, and lack that same expertise required to evaluate a D/B/B proposal with regard to both technical criteria and design criteria. The State Department of Administration is the entity that has been responsible for capital lease building acquisitions for other state agencies. The DOA track record has been dismal, producing buildings which are largely unsuccessful because of failings in the RFP utilized by DOA. The community of Juneau has seen protests sent directly from the planning commission to the Governor about conspicuous failures of capital lease building projects initiated by the DOA's Division of General Services and Supplies which is unable to differentiate between a D/B/B project and an ordinary lease for office space. Therefore, it is necessary for the Alaskan consulting community to acquire the expertise to provide state agencies with the services needed to organize and execute a successful D/B/B project.

In summary, the capital lease process is currently the only practical means available to most state agencies for obtaining new facilities. In order to ensure that agency funds are invested in a responsible manner, it is imperative that state agencies utilize a process structured to produce buildings that are functionally responsive to the needs of the occupants, are economical to operate and maintain, and are humane and productive environments for the individuals who work there. In

addition, those building projects must complement and enhance the community in which they are placed -- the buildings must be good neighbors rather than centers of controversy over planning and design issues. It is incumbent on the Alaskan design community to recognize the need for D/B/B services and to be able to provide those services to state agencies. It is incumbent on the state to recognize the failings of its' process and its' products, and to obtain the necessary expertise required to develop successful capital lease building projects.

BY REP. ULMER

1 IN THE HOUSE

2

HOUSE CONCURRENT RESOLUTION NO. 52

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - SECOND SESSION

5

Relating to the leasing of space by the

6

state.

7 BE IT RESOLVED BY THE LEGISLATURE OF THE STATE OF ALASKA:

8

WHEREAS the state leases office space in over 60 communities through-

9

out the state, and the purpose of these offices is to provide services to

10

the public; and

11

WHEREAS the state's presence in these offices affects the business

12

environment in the host community, and the design of these offices affects

13

employee efficiency and morale as well as the cost of the leases; and

14

WHEREAS the state should be a responsible citizen in the host commu-

15

ity and not cause the construction of buildings that are below the pre-

16

vailing standard for commercial structures in the host community; and

17

WHEREAS the competitive sealed proposal process makes it possible to

18

consider attributes other than the cost of a lease, including the total

19

life-cycle costs for maintenance and operations, functionality, public

20

convenience, design, and appearance of the leased building;

21

BE IT RESOLVED that the Alaska State Legislature respectfully requests

22

the governor to direct the Department of Administration to seek lease space

23

that not only accommodates the state's mission but is also compatible with

24

the host community's planning, zoning, and design regulations; and be it

25

FURTHER RESOLVED that the Alaska State Legislature encourages state

26

agencies to avoid leasing practices that would cause the construction of

27

substandard commercial structures that will not compete well for private

28

sector tenants when the state lease ends or that will be substandard in

29

appearance and features when compared to prevailing building practices and

Why not done through Admin process now?  
 purpose of bill give DOA nudge to  
 Adopt a broader view - we want you  
 to consider these design factors -  
 shutting - purpose of resolution

- 1 design; and be it
- 2 FURTHER RESOLVED that the Alaska State Legislature encourages state
- 3 agencies to utilize the competitive sealed proposal process for the acqui-
- 4 sition of leased space when the lease exceeds 10,000 square feet or a term
- 5 of five years; and be it
- 6 FURTHER RESOLVED that the competitive sealed proposal process used to
- 7 lease office space for the state consider the total life-cycle cost of the
- 8 building to be leased, including maintenance and operations, functionality,
- 9 public convenience, design, and appearance.
- 10 COPIES of this resolution shall be sent to the Honorable John M.
- 11 Andrews, commissioner of administration; the Honorable Mark S. Hickey,
- 12 commissioner of transportation and public facilities; and to Ray Price,
- 13 Executive Director of the Alaska State Housing Authority.

MAY 1971

→ problem statewide  
 → CAP lease process  
 Reluctant to build - lease / construction  
 poor use of space through design process.  
 when you go out, matter is space. Not  
 concerned with design, long term cost  
 not functional needs.

\*  
 Legislative process - not  
 DOA process. Leg wanted go get  
 cheap space - don't have design.  
 Change of mind. No transfer design.  
 Direct design only no real benefit

\* → LEASING RESULTS IN CONSTRUCTION  
 - bid specifications

DON'T GET FORCE -  
 e.g. plywood panel  
 C bad, bad, bad.