

**HB**

**236**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 7, 1997

FURTHER REFERRALS:

Date of Committee Action: 4/23/97

The FINANCE Committee considered:

HB 236

HOUSE BILL NO. 236

ANCHORAGE OFFICE BUILDING

"An Act giving notice of and approving a lease-purchase agreement by the Department of Administration for an office building in Anchorage; relating to the financing of the lease-purchase agreement; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 236 (FIN)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_ APPROVES PREVIOUS: (Dept/Date)

fiscal note(s) (2) DOA \_\_\_\_\_  fiscal note(s) \_\_\_\_\_  
REV \_\_\_\_\_

zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>[Signature]</i>	Martin	X			
<i>[Signature]</i>	Hanley			X	
<i>[Signature]</i>	Therriault			X	
<i>[Signature]</i>	G. Davis			X	
<i>[Signature]</i>	Grussendorf	X			
<i>[Signature]</i>	J. Davies	X			
<i>[Signature]</i>	FOSTER		X		
<i>[Signature]</i>	Kohring		X		
<i>[Signature]</i>	Moses			X	

CO-CHAIR'S SIGNATURE

*[Signature]*  
Hanley

*[Signature]*  
Therriault



**FISCAL NOTE  
STATE OF ALASKA  
1997 LEGISLATIVE SESSION**

**BILL NO. HB 236**

**ANALYSIS: (continued)**

<u>Leasing Component</u>		FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
<b>A Baseline (continue leasing assumption)</b>							
	GF	5,045.6	5,304.0	5,390.8	5,478.8	5,568.1	5,658.6
	I/A	898.0	898.0	898.0	698.0	898.0	898.0
		<u>5,943.6</u>	<u>6,201.9</u>	<u>6,288.8</u>	<u>6,376.8</u>	<u>6,466.1</u>	<u>6,556.6</u>
<b>B Lease cost under purchase</b>							
	GF	4,298.4	4,367	3,044	535	305	309
	I/A	652.0	652.0	521.1	56.3	0.0	0.0
		<u>4,950.4</u>	<u>5,019.0</u>	<u>3,564.7</u>	<u>591.8</u>	<u>304.8</u>	<u>309.0</u>
<b>C Change in annual lease costs (A-B)</b>							
	GF	(747.3)	(937.0)	(2,347.2)	(4,943.4)	(5,263.4)	(5,349.6)
	I/A	(245.9)	(245.9)	(376.9)	(841.7)	(898.0)	(898.0)
		<u>(993.2)</u>	<u>(1,182.9)</u>	<u>(2,724.1)</u>	<u>(5,785.0)</u>	<u>(6,161.3)</u>	<u>(6,247.6)</u>
<b>D Leasing budget transfers to agencies for building operation costs</b>							
		78.6	0.0	304.3	471.6	0.0	0.0
<b>E Net change in annual leasing cost (C less D)</b>							
	GF	(668.6)	(937.0)	(2,042.9)	(4,471.7)	(5,263.4)	(5,349.6)
	I/A	(245.9)	(245.9)	(376.9)	(841.7)	(898.0)	(898.0)
		<u>(914.6)</u>	<u>(1,182.9)</u>	<u>(2,419.7)</u>	<u>(5,313.4)</u>	<u>(6,161.3)</u>	<u>(6,247.6)</u>
<b>F Net change in current year</b>							
	GF	(668.6)	(268.4)	(1,787.1)	(1,747.7)	(791.6)	(86.3)
	I/A	(245.9)	0.0	(131.0)	(464.8)	(56.3)	0.0
		<u>(914.6)</u>	<u>(268.4)</u>	<u>(1,918.0)</u>	<u>(2,212.4)</u>	<u>(847.9)</u>	<u>(86.3)</u>

**Assumptions:**

1. Future lease costs will increase based upon the standard lease language which applies a CPI adjustment to 35% of the lease cost (base lease cost x 35% x CPI).
2. CPI is assumed to be 4% per year.
3. Tenant agency's will pay a proportionate share of the BofA building operating costs. These "rents" will go to a separate budget component. The leasing budget will pay any difference between the BofA rent and the current tenant agency RSA for their current lease in the year that the tenant agency moves in to the BofA building. This amount will be transferred to the tenant agency in the subsequent year. The tenant agency will be responsible for all future year rent payments to the BofA building component.

**Attachments:**

- 1) BofA Fiscal Note Narrative - 6 pages
- 2) Kincaid & Riley April 10, 1997 report
- 3) BofA Spreadsheet (BofA15.xls)

## B OF A FISCAL NOTE NARRATIVE

### FY98

#### **1 Lease Costs**

Lease #2012, Dept. of Revenue (DOR) is located in BofA building. Rent for this lease would not be due under state ownership of the building thus eliminating the projected FY98 payment of \$933,190. That cost is paid from two sources as follows:

\$747,264 GF in the Leasing Budget  
\$245,925 I/A receipts from the Dept. of Revenue  
\$993,189 Total FY98 lease cost

#### **2 BofA Operating Costs**

Dept. of Revenue will be charged their proportionate share of BofA operating cost based on their Useable Square Foot (USF) of occupancy as follows:

53,255 usf @ \$0.51 /usf / month (\$1,735,000 total building operating cost / 251,786 total building usf) = \$324,550

	Sq. Ft.	\$/ SqFt / month	# of months	Total this year
Lease 2012 Rent	53,255	0.51	12	324,550

The current Dept. of Revenue RSA for Lease #2012 is \$245,925, this amount will be applied to their share of the operating cost, the balance, \$78,625 will be paid from the leasing budget (and transferred to DOR in the following fiscal year).

Leasing budget transfer	78,625
Agency budget payment	<u>245,925</u>
	<u>324,550</u>

#### **3 Net Leasing Budget Reduction**

The GF savings to the leasing budget will be the current GF lease amount less the amount used to pay the balance of the DOR operating cost (rent):

The total reduction to the Leasing Component will be the GF savings plus the current RSA amount which the DOR will instead pay to the new building component for a total reduction of:

	Total Funds	GF	I/A
Lease savings	993,190	747,264	245,925
Leasing transfer	78,625	78,625	0
Net savings	<u>914,565</u>	<u>668,640</u>	<u>245,925</u>

## B OF A FISCAL NOTE NARRATIVE

### FY 99

#### **1 Lease Costs**

No existing leases move into the BofA Building during this year. The net lease savings for this year are due to the prior elimination of Lease #2012 in FY98. Savings this year are based on the assumption in the "continued leasing" scenario, that without a building purchase Lease #2012 would have been replaced upon its expiration (9/30/98) at a market rate of \$1.98 / sq.ft. / month. Under the baseline "continued leasing" assumption, all leases increase in cost due to CPI adjustments.

a) The continued cost of leasing without a building purchase is as follows:

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease 2011 Rent	3,606,568	3,292,248	314,320
Lease 2096 Rent	1,004,009	666,013	337,723
Lease 2012 Rent	1,182,923	936,997	245,925
Other Lease	408,443	408,443	0
Total Cost	<u>6,201,943</u>	<u>5,303,701</u>	<u>897,969</u>

b) The cost of leasing with a building purchase would be as follows:

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Continued Lease 2011	3,606,568	3,292,248	314,320
Continued Lease 2096	1,004,009	666,013	337,723
Continued Lease 2012	0	0	0
Continued "other lease"	408,443	408,443	0
Total Cost	<u>5,019,020</u>	<u>4,366,704</u>	<u>652,043</u>

c) The lease savings in FY99 is therefore:

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
a) minus b)	1,182,923	936,997	245,925

#### **2 BofA Operating Costs**

DOR's share of BofA operating cost is entirely in DOR's budget. No additional leasing budget transfers take place in this year.

#### **3 Net Leasing Budget Reduction**

The net leasing budget reduction is the savings calculated in #1 above.

## B OF A FISCAL NOTE NARRATIVE

### FY00

#### **1 Lease Costs**

Lease #2011 expires on 1/31/2000 and is assumed to move into the BofA Building thereafter.

a) The cost of leasing without a building purchase includes the following:

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease 2011 Rent	3,606,568	3,292,248	314,320
Lease 2096 Rent	1,004,009	666,013	337,723
Lease 2012 Rent	1,182,923	936,997	245,925
Other Lease	408,443	408,443	0
<b>Total Cost</b>	<u>6,201,943</u>	<u>5,303,701</u>	<u>897,969</u>

b) The cost of leasing with a building purchase includes the following:

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Continued Lease 2011	3,606,568	3,292,248	314,320
Continued Lease 2096	1,004,009	666,013	337,723
Continued Lease 2012	0	0	0
Continued "other lease"	408,443	408,443	0
<b>Total Cost</b>	<u>5,019,020</u>	<u>4,366,704</u>	<u>652,043</u>
	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
a) minus b)	1,182,923	936,997	245,925

#### **2 BofA Operating Costs**

Lease #2011 will pay 5 months of their proportionate cost of the BofA operating expense. That lease is 135,922 sq. ft. The cost of building operations is estimated to be \$0.62 per sq. ft. per month. The cost will be funded from current agency lease payments (\$314,320 per year) and leasing budget payments to make up the difference.

	<u>Sq. Ft.</u>	<u>\$ / SqFt / month</u>	<u># of months</u>	<u>Total this year</u>
Lease #2011	135,922	0.55	5	373,307
Leasing budget transfer	304,330			
Agency budget payment	68,977			
	<u>373,307</u>			

#### **3 Net Leasing Budget Reduction**

The net savings to the leasing budget is the lease savings in 1c above less the leasing budget payment for building operations cost in 2 above.

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease savings	2,724,073	2,347,181	376,892
Leasing transfer	(304,330)	(304,330)	0
<b>Net savings</b>	<u>2,419,743</u>	<u>2,042,851</u>	<u>376,892</u>

## B OF A FISCAL NOTE NARRATIVE

### FY01

#### **1 Lease Costs**

a) The cost of leasing without a building purchase is as follows:

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease 2011 Rent	3,657,060	3,342,740	314,320
Lease 2096 Rent	1,018,065	679,602	337,723
Lease 2012 Rent	1,199,484	953,558	245,925
Other Lease	414,161	414,161	0
Total Cost	<u>6,288,770</u>	<u>5,390,061</u>	<u>897,969</u>

b) Under the assumption of a purchase, Lease #2096 would expire on January 31, 2000 and is assumed to move into the BofA Building thereafter.

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Continued Lease 2011	2,132,470	1,949,117	183,353
Continued Lease 2096	1,018,065	679,602	337,723
Continued Lease 2012	0	0	0
Continued "other lease"	414,161	414,161	0
Total Cost	<u>3,564,696</u>	<u>3,042,880</u>	<u>521,077</u>

c) a minus b

	2,724,073	2,347,181	376,892
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#### **2 BofA Operating Costs**

Lease #2011 is assumed to have moved into the BofA Building for the last five months of FY00. Because only five months of leasing budget funds were used in FY00 for lease #2011, an additional seven months are required to be used in FY01 in order to hold harmless those agencies occupying lease #2011.

Lease #2096 would pay a proportionate cost of the BofA Building operating cost for 10 months in FY01.

Lease #	Leasing		Total BofA Rent
	Transfer to Agency	Agency Rent Payment	
2011	458,930	472,845	931,775
2096	12,694	217,133	229,827
	<u>471,623</u>	<u>689,978</u>	<u>1,161,602</u>

#### **3 Net Leasing Budget Reduction**

The net leasing budget reduction is the lease savings from #1 above less the amount transferred to the tenant agencies for BofA operating costs.

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease savings	5,785,034	4,943,352	841,682
Leasing transfer	(471,623)	(471,623)	0
Net savings	<u>5,313,411</u>	<u>4,471,729</u>	<u>841,682</u>

## B OF A FISCAL NOTE NARRATIVE

### FY02

#### **1 Lease Costs**

No moves take place during this fiscal year.

a) The cost of leasing without a building purchase

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease 2011 Rent	3,708,259	3,393,939	314,320
Lease 2096 Rent	1,032,318	694,595	337,723
Lease 2012 Rent	1,216,276	970,351	245,925
Other Lease	419,960	419,960	0
Total Cost	<u>6,376,813</u>	<u>5,478,844</u>	<u>897,969</u>

b) The cost of leasing with a building purchase.

Continued Lease 2011	0	0	
Continued Lease 2096	171,819	115,532	56,287
Continued Lease 2012	0	0	0
Continued "other lease"	419,960	419,960	0
Total Cost	<u>591,779</u>	<u>535,492</u>	<u>56,287</u>

c) a minus b                      5,785,034    4,943,352    841,682

#### **2 BofA Operating Costs**

There are no additional leasing budget dollars transferred to agencies in this year.

#### **3 Net Leasing Budget Reduction**

The leasing savings in #1 above are the net reductions in this year.

## B OF A FISCAL NOTE NARRATIVE

### FY03

#### **1 Lease Costs**

No moves take place during this fiscal year.

##### a) The cost of leasing without a building purchase

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Lease 2011 Rent	3,760,174	3,445,854	314,320
Lease 2096 Rent	1,046,770	709,047	337,723
Lease 2012 Rent	1,233,304	987,379	245,925
Other Lease	425,839	425,839	0
Total Cost	<u>6,466,088</u>	<u>5,568,119</u>	<u>897,969</u>

##### b) The cost of leasing with a building purchase

	<u>Total Funds</u>	<u>GF</u>	<u>I/A</u>
Continued Lease 2011	0	0	0
Continued Lease 2096	0	0	0
Continued Lease 2012	0	0	0
Continued "other lease"	304,755	304,755	0
Total Cost	<u>304,755</u>	<u>304,755</u>	<u>0</u>

c) a minus b                      6,161,333    5,263,364    897,969

#### **2 BofA Operating Costs**

There are no additional leasing budget dollars transferred to agencies in this year.

#### **3 Net Leasing Budget Reduction**

The leasing savings in #1 above are the net reductions in this year.

Bank of America  
Executive Summary

Purchase Price	25,950,000
Cost of moves, tenant improvements and lease buyouts	8,450,900
Cost of financing	<u>3,665,000</u>
Total financing	<u>38,065,900</u>

	First 20 Years	First 40 Years
<b>CONTINUED LEASING</b>		
Low Case	139,874,701	324,816,107
Market Rates	154,008,649	405,002,545
<b>PURCHASE BofA</b>		
Current Leases	15,316,684	15,316,684
Rent Collected From Non-State Tenants	(34,165,000)	(34,165,000)
Operating Expenses	35,154,441	112,457,965
Maintenance / Reserves	11,613,451	37,059,951
Capital Reserves	2,382,246	7,602,041
Property Tax	698,336	698,336
Business Improvement District	65,442	65,442
Debt Service	61,542,198	65,046,741
	<u>92,607,797</u>	<u>204,082,160</u>
<b>PROJECTED SAVINGS</b>		
Low Case	47,266,903	120,733,946
Market Rates	61,400,852	200,920,385
<b>NET PRESENT VALUE OF SAVINGS /</b>		
Low Case	18,438,802	36,645,857
Market Rates	24,257,353	54,164,006

Bank of America  
Spreadsheet Assumptions

Notes to "Savings Summary" worksheet

1.a.1 - Assumes the continuation of lease 2011 located in the Frontier Building housing DNR (101,685 usf), Commerce (16,390 usf), DOA (8,565 usf), Governor's Office (6,582 usf), H&SS (1,200 usf) and Revenue (1,500 usf) at the FY 97 rate of \$ 2.151 adjusted by a 4% increase in CPI each year that acts on 35% of the lease base rate per terms of the lease. Total Net Usable Sq. Ft. is 135,922.

1.a.2 - Assumes the continuation of lease 2096 located in the Frontier Building housing H&SS (38,009 usf), DOA (1,226 usf), and Governor's Office (996 usf) at the FY 97 rate of \$2.0290 adjusted by a 4% increase in CPI each year that acts on 35% of the lease base rate per terms of the lease. Total Net Usable Sq. Ft. is 40,231.

1.a.3 - Assumes the continuation of lease 2012 located in the Bank of America Building housing the Department of Revenue (53,280 usf) and the Alaska Municipal Bond Bank Authority (1,572 usf). The lease expires in 9/30/98 without options to extend. At that time a market adjustment to \$1.95 is assumed. (Follett and Associates Appraisal, "Summary of Tenant Lease Information", p 10, State of Alaska (Market Rate \$1.70 rentable X 1.1478 load factor = \$1.951 usf)).

1.a.4 - Assumes other rents that would be saved as leases move into the B of A center with a current average lease cost of \$ 1.50 usf. Approximately 22,378 usf is expected to round out the leases to fully fill the building. This rate is adjusted annually by a 4% CPI increase to 35% of the base rent. The \$1.50 usf rate is based on the assumption that the higher cost leases will be replaced from the remaining 538,900 s.f.

2a - Under the purchase scenario the lease payments for DNR and others in lease 2011 continues to be paid at the current rate (\$ 2.151 1997) with a 4% CPI adjustment acting annually upon 35% of the base rent until January of 2000 when the lease expires. At that time the 135,920 usf moves into the B of A building and lease payments for 2011 cease.

2b - Under the purchase scenario the lease payments for H&SS and others in lease 2096 continues to be paid at the rate set out in the continuation line until 2001 when the lease expires. Under this assumption the last 2 year option in the lease is exercised. At that time the 40,231 usf moves into the B of A building and lease payments for 2096 cease.

2c - Lease 2012 in B of A stop at the closing of the lease purchase agreement saving \$993,190. A portion of the savings accrues to the leasing budget. The \$245,925 IA from Revenue to DOA will now go towards the operating and maintenance cost of the facility. If the building is purchased it is anticipated that state agencies will pay for their pro rata share of the annual operating and maintenance expenses. Revenue's current IA amount is less than their anticipated pro rata share of the O&M costs. The difference will be taken from the savings in the leasing budget in the move in year.

2d - This line demonstrates the anticipated lease payments for other leases that will be moved into the Bank of America Building as space becomes available. In 1998 other leases total 22,378 usf and are estimated at a rental rate of \$1.50 per usf in 1998. The rents are adjusted annually by applying a 4% CPI adjustment to 35% of the base. In 2006 the last of these leases are moved into the B of A building. The rental rate of \$1.50 usf is assumed to be an average rate of leases that would be moved into the building as space becomes available from an inventory of approximately 538,900 s.f..

2e - Rents collected from non state tenants. This figure is the sum of the rents from the seller's rent rolls and the fees received for parking. The figure declines until 2002. It increases at that time as a result of a charge for parking estimated at \$45 per space.

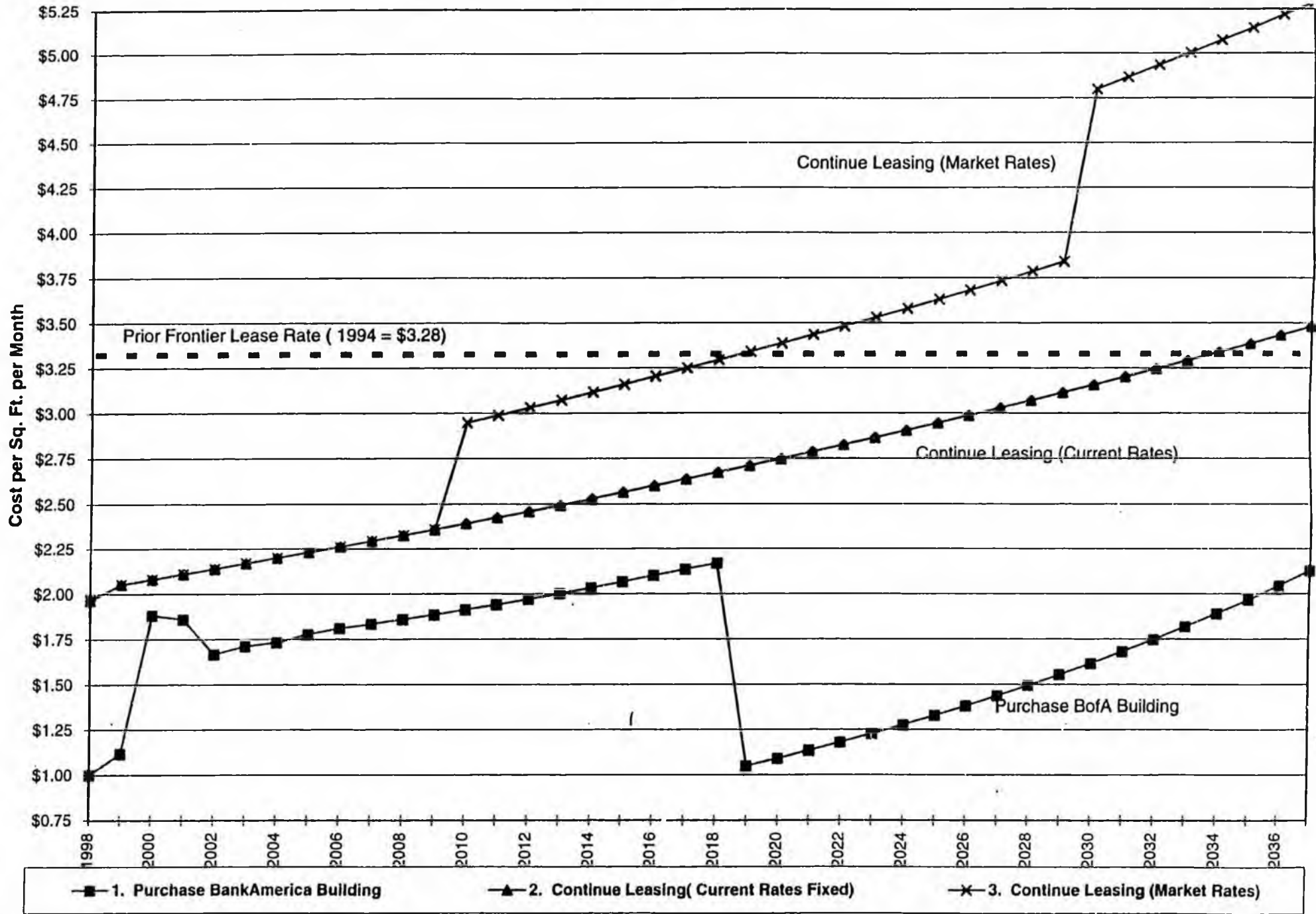
2f - Operating expenses are based on projections provided by Follett and Associates in the March 3 1997 appraisal of the property. Insurance projects were reduced to reflect charges anticipated by the Division of Risk Management. Repairs and Maintenance was reduced to place snow removal in a separate category. The management fee has been adjusted based on recommendations of Ken Kincaid of Kincaid and Riely to reflect more realistic costs under state ownership.

2i - Property tax is shown as an expense based on the percent of the building area that is occupied by non-government tenants in each fiscal year. Property tax is based on the 1997 property tax projection by the Municipality of Anchorage of \$496,146.

2j - Downtown Business Improvement District. This is a voluntary assessment of \$21,814 has been agreed to by the owner of the Bank America Building. This voluntary program will be evaluated at the end of the three years. If the assessment is extended the state will participate.

2k - Debt service demonstrates the anticipated annual cost to pay back the Certificates of Participation which will finance the purchase. This includes all issuance fees, and approximately \$5,484,291 in capitalized interest. Included in the debt service line are \$7,450,900 to complete tenant improvements to the building and negotiate early termination of leases.

Average Office Options



## Savings Summary

	TOTAL FY 1998-2037	Fiscal Years:								
		1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>1 CONTINUE LEASING:</b>										
<b>a Current Lease Rates</b>										
1. Lease 2011	188,988,939	3,557,473	3,606,568	3,657,060	3,708,259	3,760,174	3,812,817	3,866,196	3,920,323	3,975,208
2. Lease 2096 Rent	52,611,193	990,147	1,004,009	1,018,065	1,032,318	1,046,770	1,061,425	1,076,285	1,091,353	1,106,632
3. Lease 2012 Rent	61,813,086	993,190	1,182,923	1,199,484	1,216,276	1,233,304	1,250,571	1,268,079	1,285,832	1,303,833
4. Rent for "other leases"	21,402,888	402,804	408,443	414,161	419,960	425,839	431,801	437,846	443,976	450,192
<b>Total Cost</b>	<b>324,816,107</b>	<b>5,943,614</b>	<b>6,201,943</b>	<b>6,298,770</b>	<b>6,376,813</b>	<b>6,466,088</b>	<b>6,556,613</b>	<b>6,648,406</b>	<b>6,741,484</b>	<b>6,835,864</b>
		\$1.97	\$2.05	\$2.08	\$2.11	\$2.14	\$2.17	\$2.20	\$2.23	\$2.26
<b>b Adjusted Market Rates</b>										
1. Lease 2011	235,619,082	3,557,473	3,606,568	3,657,060	3,708,259	3,760,174	3,812,817	3,866,196	3,920,323	3,975,208
2. Lease 2096 Rent	65,592,285	990,147	1,004,009	1,018,065	1,032,318	1,046,770	1,061,425	1,076,285	1,091,353	1,106,632
3. Lease 2012 Rent	77,107,394	993,190	1,182,923	1,199,484	1,216,276	1,233,304	1,250,571	1,268,079	1,285,832	1,303,833
4. Rent for "other leases"	26,683,784	402,804	408,443	414,161	419,960	425,839	431,801	437,846	443,976	450,192
<b>Total Cost</b>	<b>405,002,545</b>	<b>5,943,614</b>	<b>6,201,943</b>	<b>6,288,770</b>	<b>6,376,813</b>	<b>6,466,088</b>	<b>6,556,613</b>	<b>6,648,406</b>	<b>6,741,484</b>	<b>6,835,864</b>
		\$1.97	\$2.05	\$2.08	\$2.11	\$2.14	\$2.17	\$2.20	\$2.23	\$2.26
<b>2 PURCHASE BOA BUILDING:</b>										
a Continued Lease 2011 Rent Expense	9,296,511	3,557,473	3,606,568	2,132,470	0	0	0	0	0	0
b Continued Lease 2096 Rent Expense	3,184,039	990,147	1,004,009	1,018,065	171,819	0	0	0	0	0
c Continued Lease 2012 Rent Expense	0	0	0	0	0	0	0	0	0	0
d Continued "other lease" Rent Expense	2,836,133	402,804	408,443	414,161	419,960	304,755	309,022	313,348	130,903	132,736
e Rent Collected From Non-State Tenants	(34,165,000)	(3,829,231)	(3,596,157)	(944,804)	(437,736)	(719,750)	(740,345)	(761,764)	(504,135)	(491,417)
f Operating Expenses	112,457,965	1,144,450	1,190,228	1,237,837	1,332,711	1,386,019	1,441,460	1,499,118	1,559,083	1,621,446
g Maintenance	37,059,951	390,000	405,600	421,824	438,697	456,245	474,495	493,474	513,213	533,742
h Capital Reserves	7,602,041	80,000	83,200	86,528	89,989	93,589	97,332	101,226	105,275	109,486
i Property Tax	698,336	266,702	255,066	84,949	26,752	21,622	21,622	21,622	0	0
j Business Improvement District	65,442	21,814	21,814	21,814	0	0	0	0	0	0
k Debt Service	65,046,741	0	0	1,213,322	3,578,713	3,497,506	3,571,855	3,569,704	3,567,609	3,565,288
<b>Total Cost</b>	<b>204,082,160</b>	<b>3,024,159</b>	<b>3,378,771</b>	<b>5,686,166</b>	<b>5,620,904</b>	<b>5,039,986</b>	<b>5,175,441</b>	<b>5,236,728</b>	<b>5,371,948</b>	<b>5,471,280</b>
		\$1.00	\$1.12	\$1.88	\$1.86	\$1.67	\$1.71	\$1.73	\$1.78	\$1.81
<b>PROJECTED SAVINGS</b>										
<b>Current Lease Rates</b>	<b>120,733,946</b>	<b>2,919,455</b>	<b>2,823,171</b>	<b>602,604</b>	<b>755,909</b>	<b>1,426,102</b>	<b>1,381,172</b>	<b>1,411,678</b>	<b>1,369,536</b>	<b>1,364,584</b>
<b>Adjusted Market Rates</b>	<b>200,920,385</b>	<b>2,919,455</b>	<b>2,823,171</b>	<b>602,604</b>	<b>755,909</b>	<b>1,426,102</b>	<b>1,381,172</b>	<b>1,411,678</b>	<b>1,369,536</b>	<b>1,364,584</b>

Savings Summary

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>1 CONTINUE LEASING:</b>										
<b>a Current Lease Rates</b>										
1. Lease 2011	4,030,861	4,087,293	4,144,515	4,202,538	4,261,373	4,321,033	4,381,527	4,442,868	4,505,069	4,568,140
2. Lease 2096 Rent	1,122,125	1,137,835	1,153,764	1,169,917	1,186,296	1,202,904	1,219,745	1,236,821	1,254,136	1,271,694
3. Lease 2012 Rent	1,322,087	1,340,596	1,359,364	1,378,396	1,397,693	1,417,261	1,437,102	1,457,222	1,477,623	1,498,310
4. Rent for "other leases"	456,494	462,885	469,366	475,937	482,600	489,356	496,207	503,154	510,198	517,341
<b>Total Cost</b>	<b>6,931,567</b>	<b>7,028,608</b>	<b>7,127,009</b>	<b>7,228,787</b>	<b>7,327,962</b>	<b>7,430,554</b>	<b>7,534,581</b>	<b>7,640,065</b>	<b>7,747,026</b>	<b>7,855,485</b>
	\$2.29	\$2.33	\$2.36	\$2.39	\$2.43	\$2.46	\$2.49	\$2.53	\$2.56	\$2.60
<b>b Adjusted Market Rates</b>										
1. Lease 2011	4,030,861	4,087,293	4,144,515	5,180,844	5,253,173	5,326,718	5,401,292	5,476,910	5,553,587	5,631,337
2. Lease 2096 Rent	1,122,125	1,137,835	1,153,764	1,442,208	1,462,397	1,482,871	1,503,631	1,524,682	1,546,027	1,567,672
3. Lease 2012 Rent	1,322,087	1,340,596	1,359,364	1,699,207	1,722,995	1,747,117	1,771,577	1,796,379	1,821,528	1,847,030
4. Rent for "other leases"	456,494	462,885	469,366	586,708	594,922	603,251	611,696	620,260	628,944	637,749
<b>Total Cost</b>	<b>6,931,567</b>	<b>7,028,608</b>	<b>7,127,009</b>	<b>8,908,765</b>	<b>9,033,488</b>	<b>9,159,957</b>	<b>9,288,196</b>	<b>9,418,231</b>	<b>9,550,086</b>	<b>9,683,787</b>
	\$2.29	\$2.33	\$2.36	\$2.95	\$2.99	\$3.03	\$3.07	\$3.12	\$3.16	\$3.21
<b>2 PURCHASE BOA BUILDING:</b>										
a Continued Lease 2011 Rent Expense	0	0	0	0	0	0	0	0	0	0
b Continued Lease 2096 Rent Expense	0	0	0	0	0	0	0	0	0	0
c Continued Lease 2012 Rent Expense	0	0	0	0	0	0	0	0	0	0
d Continued "other lease" Rent Expense	0	0	0	0	0	0	0	0	0	0
e Rent Collected From Non-State Tenants	(373,172)	(388,099)	(403,623)	(419,767)	(436,558)	(454,021)	(472,181)	(491,069)	(510,711)	(531,140)
f Operating Expenses	1,686,304	1,753,756	1,823,906	1,896,863	1,972,737	2,051,647	2,133,713	2,219,061	2,307,824	2,400,137
g Maintenance	555,092	577,295	600,387	624,403	649,379	675,354	702,368	730,463	759,681	790,068
h Capital Reserves	113,865	118,420	123,156	128,083	133,206	138,534	144,075	149,838	155,832	162,065
i Property Tax	0	0	0	0	0	0	0	0	0	0
j Business Improvement District	0	0	0	0	0	0	0	0	0	0
k Debt Service	3,562,458	3,558,836	3,554,141	3,552,949	3,549,835	3,544,518	3,541,573	3,535,576	3,531,105	3,527,594
<b>Total Cost</b>	<b>5,544,546</b>	<b>5,620,209</b>	<b>5,697,969</b>	<b>5,782,529</b>	<b>5,868,599</b>	<b>5,956,032</b>	<b>6,049,547</b>	<b>6,143,870</b>	<b>6,243,730</b>	<b>6,348,724</b>
	\$1.84	\$1.86	\$1.89	\$1.91	\$1.94	\$1.97	\$2.00	\$2.03	\$2.07	\$2.10
<b>PROJECTED SAVINGS</b>										
<b>Current Lease Rates</b>	1,387,020	1,408,400	1,429,040	1,444,258	1,459,363	1,474,522	1,485,034	1,496,196	1,503,296	1,506,761
<b>Adjusted Market Rates</b>	1,387,020	1,408,400	1,429,040	3,126,236	3,164,889	3,203,925	3,238,649	3,274,361	3,306,356	3,335,063

Savings Summary

	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>1 CONTINUE LEASING:</b>									
<b>a Current Lease Rates</b>									
1. Lease 2011	4,632,094	4,696,943	4,762,700	4,829,378	4,896,989	4,965,547	5,035,065	5,105,556	5,177,033
2. Lease 2096 Rent	1,289,498	1,307,551	1,325,857	1,344,419	1,363,241	1,382,326	1,401,679	1,421,302	1,441,200
3. Lease 2012 Rent	1,519,286	1,540,556	1,562,124	1,583,994	1,606,170	1,628,656	1,651,457	1,674,577	1,698,022
4. Rent for "other leases"	524,584	531,928	539,375	546,926	554,583	562,347	570,220	578,203	586,298
<b>Total Cost</b>	<b>7,965,462</b>	<b>8,076,978</b>	<b>8,190,056</b>	<b>8,304,716</b>	<b>8,420,982</b>	<b>8,538,876</b>	<b>8,658,421</b>	<b>8,779,638</b>	<b>8,902,553</b>
	\$2.64	\$2.67	\$2.71	\$2.75	\$2.79	\$2.83	\$2.87	\$2.91	\$2.95
<b>b Adjusted Market Rates</b>									
1. Lease 2011	5,710,176	5,790,118	5,871,180	5,953,376	6,036,723	6,121,238	6,206,935	6,293,832	6,381,946
2. Lease 2096 Rent	1,589,619	1,611,874	1,634,440	1,657,322	1,680,525	1,704,052	1,727,909	1,752,099	1,776,629
3. Lease 2012 Rent	1,872,888	1,899,109	1,925,696	1,952,656	1,979,993	2,007,713	2,035,821	2,064,323	2,093,223
4. Rent for "other leases"	646,677	655,731	664,911	674,220	683,659	693,230	702,935	712,777	722,755
<b>Total Cost</b>	<b>9,819,360</b>	<b>9,956,831</b>	<b>10,096,227</b>	<b>10,237,574</b>	<b>10,380,900</b>	<b>10,526,233</b>	<b>10,673,600</b>	<b>10,823,031</b>	<b>10,974,553</b>
	\$3.25	\$3.30	\$3.34	\$3.39	\$3.44	\$3.48	\$3.53	\$3.58	\$3.63
<b>2 PURCHASE BOA BUILDING:</b>									
a Continued Lease 2011 Rent Expense	0	0	0	0	0	0	0	0	0
b Continued Lease 2096 Rent Expense	0	0	0	0	0	0	0	0	0
c Continued Lease 2012 Rent Expense	0	0	0	0	0	0	0	0	0
d Continued "other lease" Rent Expense	0	0	0	0	0	0	0	0	0
e Rent Collected From Non-State Tenants	(552,385)	(574,481)	(597,460)	(621,358)	(646,213)	(672,061)	(698,944)	(726,901)	(755,978)
f Operating Expenses	2,496,142	2,595,988	2,699,827	2,807,820	2,920,133	3,036,938	3,158,416	3,284,753	3,416,143
g Maintenance	821,671	854,538	888,720	924,268	961,239	999,689	1,039,676	1,081,263	1,124,514
h Capital Reserves	168,548	175,290	182,301	189,594	197,177	205,064	213,267	221,798	230,669
i Property Tax									
j Business Improvement District	0	0	0	0	0	0	0	0	0
k Debt Service	3,519,619	3,504,543	0	0	0	0	0	0	0
<b>Total Cost</b>	<b>6,453,594</b>	<b>6,555,878</b>	<b>3,173,388</b>	<b>3,300,324</b>	<b>3,432,337</b>	<b>3,569,630</b>	<b>3,712,415</b>	<b>3,860,912</b>	<b>4,015,348</b>
	\$2.14	\$2.17	\$1.05	\$1.09	\$1.14	\$1.18	\$1.23	\$1.28	\$1.33
<b>PROJECTED SAVINGS</b>									
<b>Current Lease Rates</b>	<b>1,511,867</b>	<b>1,521,100</b>	<b>5,016,668</b>	<b>5,004,393</b>	<b>4,988,646</b>	<b>4,969,246</b>	<b>4,946,005</b>	<b>4,918,727</b>	<b>4,887,205</b>
<b>Adjusted Market Rates</b>	<b>3,365,766</b>	<b>3,400,953</b>	<b>6,922,839</b>	<b>6,937,251</b>	<b>6,948,564</b>	<b>6,956,603</b>	<b>6,961,185</b>	<b>6,962,119</b>	<b>6,959,205</b>

**FISCAL NOTE**

STATE OF ALASKA  
1997 LEGISLATIVE SESSION

BILL NO.

HB 236

Revision Date: \_\_\_\_\_  
 Title: "An Act giving notice of and approving . . . a lease purchase agreement for an Anchorage office building."  
 Sponsor: (S) Finance Committee  
 Requestor: (S) Fin

Department Affected: Administration  
 BRU: General Services  
 Component: Anchorage Office Building Component  
 COMPONENT SERIAL NO. 81

**EXPENDITURES/REVENUES:**

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	1,534.5	1,595.8	1,659.7	1,726.0	1,795.1	1,866.9
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>1,534.5</b>	<b>1,595.8</b>	<b>1,659.7</b>	<b>1,726.0</b>	<b>1,795.1</b>	<b>1,866.9</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>3,829.2</b>	<b>3,596.2</b>	<b>944.8</b>	<b>437.7</b>	<b>719.8</b>	<b>740.3</b>
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**FUND SOURCE:**

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts	1,209.9	1,258.3	935.3	199.4	159.5	165.9
1037 GF/Mental Health						
OTHER (I/A)	324.5	337.5	724.3	1,526.7	1,635.5	1,701.0
<b>TOTAL</b>	<b>1,534.5</b>	<b>1,595.8</b>	<b>1,659.7</b>	<b>1,726.0</b>	<b>1,795.1</b>	<b>1,866.9</b>

Estimate of any current year (FY 97) cost: \$ 0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.)

This bill would authorize the lease purchase of the Bank of America building in Anchorage. The total project cost shall be less than \$38,950,000, the annual cost shall be less than \$4,070,000 and the total lease payments shall be less than \$81,400,000. Lease payments are shown in the Department of Revenue fiscal note. This fiscal note represents the costs to operate and maintain the facility. Leasing budget reductions are shown in a separate fiscal note.

Prepared by: Dugan Petty, Director *Dugan Petty*  
 Division: General Services

Phone: 465-2250  
 Date: \_\_\_\_\_

Approved by Commissioner: Mark Bover *Mark Bover*  
 Agency: Department of Administration

Date: 4/22/97

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**FISCAL NOTE  
STATE OF ALASKA  
1997 LEGISLATIVE SESSION**

**BILL NO. HB 236**

**ANALYSIS: (continued)**

This new budget component is set up specifically to account for the costs and revenues of the Bank of America building. During the years of the fiscal note, income from non-state tenants exceeds that needed to fully fund the projected cost of building operations. In later years all building operating costs will be borne by state tenants.

<u>B of A Component</u>	<u>FY 98</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>
Cost of Operations	1,534.5	1,595.8	1,659.7	1,726.0	1,795.1	1,866.9
Agency Rents I/A	245.9	337.5	420.0	1,055.1	1,635.5	1,701.0
Leasing budget payments towards agency rent	78.6	0.0	304.3	471.6	0.0	0.0
Total I/A Revenue	324.5	337.5	724.3	1,526.7	1,635.5	1,701.0
Non-state tenant revenue	1,209.9	1,258.3	935.3	199.4	159.5	165.9
Total Revenue to Building Component	1,534.5	1,595.8	1,659.7	1,726.0	1,795.1	1,866.9
Total non-state tenant rent	3,829.2	3,596.2	944.8	437.7	719.8	740.3
Non-state tenant rent used for building operations	1,209.9	1,258.3	935.3	199.4	159.5	165.9
Balance available to general fund	2,619.3	2,337.9	9.5	238.4	560.2	574.4

Assumptions:

1. The BofA building will be managed under a property management contract by a third party contractor similar to the manner in which the building is managed by its current owner.
2. Building operating costs are assumed to increase by 4% per year due to inflation.
3. Tenant agencies will pay a proportionate share of the BofA building operating costs. The leasing budget will pay any difference between the BofA rent and the current tenant agency RSA for their current lease in the year that the tenant agency moves in to the BofA building. This amount will be transferred to the tenant agency in the subsequent year. The tenant agency will be responsible for all future year rent payments to the BofA building component.

Savings Summary

	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>1 CONTINUE LEASING:</b>									
<b>a Current Lease Rates</b>									
1. Lease 2011	5,249,512	5,323,005	5,397,527	5,473,092	5,549,716	5,627,412	5,706,195	5,786,082	5,867,087
2. Lease 2096 Rent	1,461,377	1,481,836	1,502,582	1,523,618	1,544,949	1,566,578	1,588,510	1,610,749	1,633,300
3. Lease 2012 Rent	1,721,794	1,745,899	1,770,342	1,795,126	1,820,258	1,845,742	1,871,582	1,897,784	1,924,353
4. Rent for "other leases"	594,506	602,829	611,269	619,827	628,504	637,303	646,226	655,273	664,447
<b>Total Cost</b>	<b>9,027,189</b>	<b>9,153,570</b>	<b>9,281,720</b>	<b>9,411,664</b>	<b>9,543,427</b>	<b>9,677,035</b>	<b>9,812,514</b>	<b>9,949,889</b>	<b>10,089,187</b>
	\$2.99	\$3.03	\$3.07	\$3.11	\$3.16	\$3.20	\$3.25	\$3.29	\$3.34
<b>b Adjusted Market Rates</b>									
1. Lease 2011	6,471,293	6,561,891	6,653,757	6,746,910	6,843,639	6,943,710	7,047,433	7,154,834	7,266,033
2. Lease 2096 Rent	1,801,502	1,826,723	1,852,297	1,878,229	1,904,577	1,931,336	1,958,510	1,986,104	2,014,133
3. Lease 2012 Rent	2,122,528	2,152,244	2,182,375	2,212,928	2,243,911	2,275,336	2,307,216	2,339,554	2,372,353
4. Rent for "other leases"	732,874	743,134	753,538	764,088	774,811	785,718	796,814	808,104	819,593
<b>Total Cost</b>	<b>11,128,197</b>	<b>11,283,991</b>	<b>11,441,967</b>	<b>11,602,155</b>	<b>11,768,939</b>	<b>11,940,735</b>	<b>12,118,516</b>	<b>12,302,378</b>	<b>12,492,364</b>
	\$3.68	\$3.73	\$3.79	\$3.84	\$3.90	\$3.96	\$4.02	\$4.09	\$4.16
<b>2 PURCHASE BOA BUILDING:</b>									
a Continued Lease 2011 Rent Expense	0	0	0	0	0	0	0	0	0
b Continued Lease 2096 Rent Expense	0	0	0	0	0	0	0	0	0
c Continued Lease 2012 Rent Expense	0	0	0	0	0	0	0	0	0
d Continued "other lease" Rent Expense	0	0	0	0	0	0	0	0	0
e Rent Collected From Non-State Tenants	(786,217)	(817,665)	(850,372)	(884,387)	(919,762)	(956,553)	(994,815)	(1,034,607)	(1,075,992)
f Operating Expenses	3,552,788	3,694,900	3,842,696	3,996,404	4,156,260	4,322,510	4,495,411	4,675,227	4,862,236
g Maintenance	1,169,494	1,216,274	1,264,925	1,315,522	1,368,143	1,422,869	1,479,783	1,538,975	1,600,534
h Capital Reserves	239,896	249,492	259,472	269,851	280,645	291,870	303,545	315,687	328,315
i Property Tax									
j Business Improvement District	0	0	0	0	0	0	0	0	0
k Debt Service	0	0	0	0	0	0	0	0	0
<b>Total Cost</b>	<b>4,175,982</b>	<b>4,343,001</b>	<b>4,516,721</b>	<b>4,697,390</b>	<b>4,885,285</b>	<b>5,080,697</b>	<b>5,283,924</b>	<b>5,495,281</b>	<b>5,715,093</b>
	\$1.38	\$1.44	\$1.49	\$1.55	\$1.62	\$1.68	\$1.75	\$1.82	\$1.89
<b>PROJECTED SAVINGS</b>									
<b>Current Lease Rates</b>	<b>4,851,227</b>	<b>4,810,569</b>	<b>4,764,999</b>	<b>4,714,274</b>	<b>4,658,142</b>	<b>4,596,338</b>	<b>4,528,589</b>	<b>4,454,607</b>	<b>4,374,094</b>
<b>Adjusted Market Rates</b>	<b>6,952,234</b>	<b>6,940,991</b>	<b>6,925,247</b>	<b>6,904,765</b>	<b>6,878,412</b>	<b>6,845,039</b>	<b>6,805,691</b>	<b>6,760,097</b>	<b>6,708,971</b>

## Savings Summary

	<u>2035</u>	<u>2036</u>	<u>2037</u>
<b>1 CONTINUE LEASING:</b>			
<b>a Current Lease Rates</b>			
1. Lease 2011	5,949,227	6,032,516	6,116,971
2. Lease 2096 Rent	1,656,166	1,679,352	1,702,863
3. Lease 2012 Rent	1,951,294	1,978,612	2,006,313
4. Rent for "other leases"	673,749	683,181	692,746
<b>Total Cost</b>	<b>10,230,436</b>	<b>10,373,662</b>	<b>10,518,893</b>
	<b>\$3.39</b>	<b>\$3.43</b>	<b>\$3.48</b>
<b>b Adjusted Market Rates</b>			
1. Lease 2011	9,040,756	9,167,327	9,295,669
2. Lease 2096 Rent	2,516,799	2,552,034	2,587,762
3. Lease 2012 Rent	2,965,291	3,006,805	3,048,900
4. Rent for "other leases"	1,023,867	1,038,201	1,052,736
<b>Total Cost</b>	<b>15,546,712</b>	<b>15,764,366</b>	<b>15,985,068</b>
	<b>\$5.15</b>	<b>\$5.22</b>	<b>\$5.29</b>
<b>2 PURCHASE BOA BUILDING:</b>			
a Continued Lease 2011 Rent Expense	0	0	0
b Continued Lease 2096 Rent Expense	0	0	0
c Continued Lease 2012 Rent Expense	0	0	0
d Continued "other lease" Rent Expense	0	0	0
e Rent Collected From Non-State Tenants	(1,119,031)	(1,163,793)	(1,210,344)
f Operating Expenses	5,056,726	5,258,995	5,469,354
g Maintenance	1,664,555	1,731,137	1,800,383
h Capital Reserves	341,447	355,105	369,309
i Property Tax			
j Business Improvement District	0	0	0
k Debt Service	0	0	0
<b>Total Cost</b>	<b>5,943,696</b>	<b>6,181,444</b>	<b>6,428,702</b>
	<b>\$1.97</b>	<b>\$2.05</b>	<b>\$2.13</b>
<b>PROJECTED SAVINGS</b>			
<b>Current Lease Rates</b>	<b>4,286,739</b>	<b>4,192,218</b>	<b>4,090,191</b>
<b>Adjusted Market Rates</b>	<b>9,603,016</b>	<b>9,582,922</b>	<b>9,556,365</b>

**BofA Projected Operating Costs**

<b>Operating Expenses</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>
<b>Insurance</b>	4,450	4,628	4,813	5,006	5,206	5,414	5,631	5,856	6,090	6,334
<b>Management</b>	150,000	156,000	162,240	168,730	175,479	182,498	189,798	197,390	205,285	213,497
<b>Janitorial</b>	276,000	287,040	298,522	310,462	322,881	335,796	349,228	363,197	377,725	392,834
<b>Windows</b>	22,000	22,880	23,795	24,747	25,737	26,766	27,837	28,950	30,109	31,313
<b>Electric</b>	435,000	452,400	470,496	489,316	508,888	529,244	550,414	572,430	595,328	619,141
<b>Gas</b>	55,000	57,200	59,488	61,868	64,342	66,916	69,593	72,376	75,271	78,282
<b>Water/Sewer/Refuse</b>	43,000	44,720	46,509	48,369	50,304	52,316	54,409	56,585	58,848	61,202
<b>Landscaping</b>	24,000	24,960	25,958	26,997	28,077	29,200	30,368	31,582	32,846	34,159
<b>Snow Removal</b>	40,000	41,600	43,264	44,995	46,794	48,666	50,613	52,637	54,743	56,932
<b>Security</b>	90,000	93,600	97,344	101,238	105,287	109,499	113,879	118,434	123,171	128,098
<b>Additional Parking</b>				45,360	47,174	49,061	51,024	53,065	55,187	57,395
<b>Miscellaneous</b>	5,000	5,200	5,408	5,624	5,849	6,083	6,327	6,580	6,843	7,117
	<b>1,144,450</b>	<b>1,190,228</b>	<b>1,237,837</b>	<b>1,332,711</b>	<b>1,386,019</b>	<b>1,441,460</b>	<b>1,499,118</b>	<b>1,559,083</b>	<b>1,621,446</b>	<b>1,686,304</b>
<b>Real Estate Taxes</b>	266,702	255,066	84,949	26,752	21,622	21,622	21,622			
<b>Business Improvement District</b>	21,814	21,814	21,814							
<b>Maintenance</b>	390,000	405,600	421,824	438,697	456,245	474,495	493,474	513,213	533,742	555,092
<b>Capital Reserves</b>	80,000	83,200	86,528	89,989	93,589	97,332	101,226	105,275	109,486	113,865
<b>Total of All Expenses</b>	<b>1,902,966</b>	<b>1,955,908</b>	<b>1,852,952</b>	<b>1,888,148</b>	<b>1,957,475</b>	<b>2,034,909</b>	<b>2,115,440</b>	<b>2,177,571</b>	<b>2,264,674</b>	<b>2,355,261</b>

**Notes:**

- 1 All costs are per 1997 appraisal's with the following adjustments:
  - a) Property Taxes - Private tenant leases pay a proportionate share
  - b) Insurance - Per Div. of Risk Management
  - c) Property Management - Based on third party private contract
- 2 The total of Maintenance and Capital Reserves is computed at \$1.50/GSF / year
- 3 Assumed Inflation =4% per year
- 4 Business Improvement District cost would continue if assessment is extended
- 5 Additional parking is a contingency to acquire 59 added parking spaces to maintain a 1:357 ration. Additional 25 spaces added for state vehicles. Total =84 spaces @\$45/month

**BofA Projected Operating Costs**

<b>Operating Expenses</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
<b>Insurance</b>	6,587	6,851	7,125	7,410	7,706	8,014	8,335	8,668	9,015	9,375
<b>Management</b>	222,037	230,918	240,155	249,761	259,751	270,142	280,947	292,185	303,872	316,027
<b>Janitorial</b>	408,547	424,889	441,885	459,560	477,943	497,060	516,943	537,621	559,125	581,490
<b>Windows</b>	32,565	33,868	35,223	36,632	38,097	39,621	41,206	42,854	44,568	46,351
<b>Electric</b>	643,906	669,663	696,449	724,307	753,279	783,410	814,747	847,037	881,230	916,479
<b>Gas</b>	81,413	84,670	88,057	91,579	95,242	99,052	103,014	107,135	111,420	115,877
<b>Water/Sewer/Refuse</b>	63,651	66,197	68,844	71,598	74,462	77,441	80,538	83,760	87,110	90,595
<b>Landscaping</b>	35,526	36,947	38,425	39,962	41,560	43,223	44,952	46,750	48,620	50,564
<b>Snow Removal</b>	59,210	61,578	64,041	66,603	69,267	72,038	74,919	77,916	81,033	84,274
<b>Security</b>	133,222	138,551	144,093	149,857	155,851	162,085	168,568	175,311	182,323	189,616
<b>Additional Parking</b>	59,691	62,078	64,561	67,144	69,830	72,623	75,528	78,549	81,691	84,958
<b>Miscellaneous</b>	7,401	7,697	8,005	8,325	8,658	9,005	9,365	9,740	10,129	10,534
	<b>1,753,756</b>	<b>1,823,906</b>	<b>1,896,863</b>	<b>1,972,737</b>	<b>2,051,647</b>	<b>2,133,713</b>	<b>2,219,061</b>	<b>2,307,824</b>	<b>2,400,137</b>	<b>2,496,142</b>
<b>Real Estate Taxes</b>										
<b>Business Improvement District</b>										
<b>Maintenance</b>	577,295	600,387	624,403	649,379	675,354	702,368	730,463	759,681	790,068	821,671
<b>Capital Reserves</b>	118,420	123,156	128,083	133,206	138,534	144,075	149,838	155,832	162,065	168,548
<b>Total of All Expenses</b>	<b>2,449,471</b>	<b>2,547,450</b>	<b>2,649,348</b>	<b>2,755,322</b>	<b>2,865,535</b>	<b>2,980,156</b>	<b>3,099,362</b>	<b>3,223,337</b>	<b>3,352,270</b>	<b>3,486,361</b>

**Notes:**

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  - c) Property Management - Based on third party private contract
- 2 The total of Maintenance and Capital Reserves is computed at \$1.50/GSF / year
- 3 Assumed Inflation =4% per year
- 4 Business Improvement District cost would continue if assessment is extended
- 5 Additional parking is a contingency to acquire 59 added parking spaces to maintain a 1:357 ration. Additional 25 spaces added for state vehicles. Total =84 spaces @\$45/month

BoFA Projected Operating Costs

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
<b>Operating Expenses</b>										
Insurance	9,750	10,141	10,546	10,968	11,407	11,863	12,337	12,831	13,344	13,878
Management	328,668	341,815	355,488	369,707	384,496	399,875	415,870	432,505	449,805	467,798
Janitorial	604,750	628,940	654,098	680,261	707,472	735,771	765,202	795,810	827,642	860,748
Windows	48,205	50,133	52,138	54,224	56,393	58,648	60,994	63,434	65,971	68,610
Electric	953,139	991,264	1,030,915	1,072,151	1,115,037	1,159,639	1,206,024	1,254,265	1,304,436	1,356,613
Gas	120,512	125,332	130,346	135,559	140,982	146,621	152,486	158,585	164,929	171,526
Water/Sewer/Refuse	94,218	97,987	101,907	105,983	110,222	114,631	119,216	123,985	128,944	134,102
Landscaping	52,587	54,690	56,878	59,153	61,519	63,980	66,539	69,201	71,969	74,848
Snow Removal	87,645	91,151	94,797	98,589	102,532	106,633	110,899	115,335	119,948	124,746
Security	197,201	205,089	213,293	221,824	230,697	239,925	249,522	259,503	269,883	280,679
Additional Parking	88,357	91,891	95,567	99,389	103,365	107,500	111,799	116,271	120,922	125,759
Miscellaneous	10,956	11,394	11,850	12,324	12,817	13,329	13,862	14,417	14,994	15,593
	<b>2,595,988</b>	<b>2,699,827</b>	<b>2,807,820</b>	<b>2,920,133</b>	<b>3,036,938</b>	<b>3,158,416</b>	<b>3,284,753</b>	<b>3,416,143</b>	<b>3,552,788</b>	<b>3,694,900</b>
<b>Real Estate Taxes</b>										
<b>Business Improvement District</b>										
Maintenance	854,538	888,720	924,268	961,239	999,689	1,039,676	1,081,263	1,124,514	1,169,494	1,216,274
Capital Reserves	175,290	182,301	189,594	197,177	205,064	213,267	221,798	230,669	239,896	249,492
<b>Total of All Expenses</b>	<b>3,625,816</b>	<b>3,770,848</b>	<b>3,921,682</b>	<b>4,078,549</b>	<b>4,241,691</b>	<b>4,411,359</b>	<b>4,587,813</b>	<b>4,771,326</b>	<b>4,962,179</b>	<b>5,160,666</b>

**Notes:**

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  - b) Insurance - Per Div. of Risk Management
  - c) Property Management - Based on third party private contract
- 2 The total of Maintenance and Capital Reserves is computed at \$1.50/GSF / year
- 3 Assumed Inflation =4% per year
- 4 Business Improvement District cost would continue if assessment is extended
- 5 Additional parking is a contingency to acquire 59 added parking spaces to maintain a 1:357 ration. Additional 25 spaces added for state vehicles. Total =84 spaces @\$45/month

**BofA Projected Operating Costs**

<b>Operating Expenses</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>	<b>FY31</b>	<b>FY32</b>	<b>FY33</b>	<b>FY34</b>	<b>FY35</b>	<b>FY36</b>	<b>FY37</b>
<b>Insurance</b>	14,433	15,010	15,611	16,235	16,885	17,560	18,262	18,993	19,753	20,543
<b>Management</b>	486,510	505,970	526,209	547,257	569,147	591,913	615,590	640,213	665,822	692,455
<b>Janitorial</b>	895,178	930,985	968,224	1,006,953	1,047,231	1,089,121	1,132,685	1,177,993	1,225,113	1,274,117
<b>Windows</b>	71,355	74,209	77,177	80,264	83,475	86,814	90,287	93,898	97,654	101,560
<b>Electric</b>	1,410,878	1,467,313	1,526,006	1,587,046	1,650,528	1,716,549	1,785,211	1,856,619	1,930,884	2,008,119
<b>Gas</b>	178,387	185,522	192,943	200,661	208,687	217,035	225,716	234,745	244,135	253,900
<b>Water/Sewer/Refuse</b>	139,466	145,045	150,847	156,880	163,156	169,682	176,469	183,528	190,869	198,504
<b>Landscaping</b>	77,842	80,955	84,193	87,561	91,064	94,706	98,494	102,434	106,532	110,793
<b>Snow Removal</b>	129,736	134,925	140,322	145,935	151,773	157,844	164,157	170,724	177,553	184,655
<b>Security</b>	291,906	303,582	315,725	328,354	341,488	355,148	369,354	384,128	399,493	415,473
<b>Additional Parking</b>	130,790	136,021	141,462	147,121	153,005	159,126	165,491	172,110	178,995	186,154
<b>Miscellaneous</b>	16,217	16,866	17,540	18,242	18,972	19,730	20,520	21,340	22,194	23,082
	<b>3,842,696</b>	<b>3,996,404</b>	<b>4,156,260</b>	<b>4,322,510</b>	<b>4,495,411</b>	<b>4,675,227</b>	<b>4,862,236</b>	<b>5,056,726</b>	<b>5,258,995</b>	<b>5,469,354</b>
 <b>Real Estate Taxes</b>										
<b>Business Improvement District</b>										
<b>Maintenance</b>	1,264,925	1,315,522	1,368,143	1,422,869	1,479,783	1,538,975	1,600,534	1,664,555	1,731,137	1,800,383
<b>Capital Reserves</b>	259,472	269,851	280,645	291,870	303,545	315,687	328,315	341,447	355,105	369,309
 <b>Total of All Expenses</b>	<b>5,367,093</b>	<b>5,581,776</b>	<b>5,805,047</b>	<b>6,037,249</b>	<b>6,278,739</b>	<b>6,529,889</b>	<b>6,791,084</b>	<b>7,062,728</b>	<b>7,345,237</b>	<b>7,639,046</b>

**Notes:**

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  - c) Property Management - Based on third party private contract
- 2 The total of Maintenance and Capital Reserves is computed at \$1.50/GSF / year
- 3 Assumed Inflation =4% per year
- 4 Business Improvement District cost would continue if assessment is extended
- 5 Additional parking is a contingency to acquire 59 added parking spaces to maintain a 1:357 ration. Additional 25 spaces added for state vehicles. Total =84 spaces @\$45/month

Summary Cost per USF

	NPV	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1. Purchase BankAmerica Building	36,645,857	\$1.00	\$1.12	\$1.88	\$1.86	\$1.67	\$1.71	\$1.73	\$1.78	\$1.81	\$1.84	\$1.86	\$1.89	\$1.91	\$1.94
2. Continue Leasing( Current Rates Fixed)	93,150,155	\$1.97	\$2.05	\$2.08	\$2.11	\$2.14	\$2.17	\$2.20	\$2.23	\$2.26	\$2.29	\$2.33	\$2.36	\$2.39	\$2.43
3. Continue Leasing (Market Rates)	101,763,366	\$1.97	\$2.05	\$2.08	\$2.11	\$2.14	\$2.17	\$2.20	\$2.23	\$2.26	\$2.29	\$2.33	\$2.36	\$2.95	\$2.99

All yearly values above are expressed in terms which are comparable to Rent per USF (Usable Square Foot) per month, including operating costs.

A more detailed listing of assumptions is contained in the supporting worksheets.

**Scenario Descriptions**

**1. Purchase BankAmerica:** Bankamerica Building is purchased and filled with State agencies as soon as possible. Assumes all private tenants would stay for a period, generally equal to their lease terms, and then be replaced with State tenants. Assumes a 5.55% discount rate for NPV calculations, and a 18 year loan payoff.

**2. Continue Leasing (Current Rates):** Assumes current rates are only adjusted to reflect increases in owner operating costs.

**3. Continue Leasing (Market Rates):** Assumes that rental rates rebound to market rates at 20 year intervals.

Summary Cost per USF

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1. Purchase BankAmerica Building	\$1.97	\$2.00	\$2.03	\$2.07	\$2.10	\$2.14	\$2.17	\$1.05	\$1.09	\$1.14	\$1.10	\$1.23	\$1.28	\$1.33	\$1.38	\$1.44
2. Continue Leasing( Current Rates Fixed)	\$2.46	\$2.49	\$2.53	\$2.56	\$2.60	\$2.64	\$2.67	\$2.71	\$2.75	\$2.79	\$2.83	\$2.87	\$2.91	\$2.95	\$2.99	\$3.03
3. Continue Leasing (Market Rates)	\$3.03	\$3.07	\$3.12	\$3.16	\$3.21	\$3.25	\$3.30	\$3.34	\$3.39	\$3.44	\$3.48	\$3.53	\$3.58	\$3.63	\$3.68	\$3.73

All yearly values above are expressed in terms which are comparable to Rent per USF (Usable Square Foot) per month, including operating costs.

A more detailed listing of assumptions is contained in the supporting worksheets.

Summary Cost per USF

	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
1. Purchase BankAmerica Building	\$1.49	\$1.55	\$1.62	\$1.68	\$1.75	\$1.82	\$1.89	\$1.97	\$2.05	\$2.13
2. Continue Leasing( Current Rates Fixed)	\$3.07	\$3.11	\$3.16	\$3.20	\$3.25	\$3.29	\$3.34	\$3.39	\$3.43	\$3.48
3. Continue Leasing (Market Rates)	\$3.79	\$3.84	\$4.80	\$4.87	\$4.94	\$5.00	\$5.07	\$5.15	\$5.22	\$5.29

All yearly values above are expressed in terms which are comparable to Rent per USF (Usable Square Foot) per month, including operating costs.

A more detailed listing of assumptions is contained in the supporting worksheets.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Percent Rise In CPI Per Year	4.00%											
State equivalent rent per usl/mo.	(\$0.64)	(\$0.54)	\$0.70	\$1.66	\$1.57	\$1.61	\$1.63	\$1.73	\$1.77	\$1.84	\$1.86	\$1.89
State base rent per usl per yr.	(\$7.65)	(\$6.51)	\$8.43	\$19.97	\$18.81	\$19.33	\$19.55	\$20.82	\$21.20	\$22.02	\$22.32	\$22.63
Expenses	1,735,000	1,804,400	1,876,576	1,951,639	2,025,705	2,110,893	2,195,328	2,283,142	2,374,467	2,469,446	2,568,224	2,670,953
Expenses per usl per yr.	\$6.89	\$7.17	\$7.45	\$7.75	\$8.06	\$8.38	\$8.72	\$9.07	\$9.43	\$9.81	\$10.20	\$10.61
Expenses per usl per month	\$0.57	\$0.60	\$0.62	\$0.65	\$0.67	\$0.70	\$0.73	\$0.76	\$0.79	\$0.82	\$0.85	\$0.88
Building total usable s/l (est.)	251,786											
Other tenants per yr rent	3,829,231	3,596,157	944,804	437,736	719,750	740,345	761,764	504,135	491,417	373,172	388,099	403,623

State of Alaska Occupies all of BankAmerica Building in stages.  
Other tenants Other tenants are incorporated and leave in stages as buy-outs and lease expirations occur.

Cost Summary	1996	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
State of Alaska	0	0	0	0	0	0	0	0	0	0	0	0
Other tenants	3,829,231	3,596,157	944,804	437,736	719,750	740,345	761,764	504,135	491,417	373,172	388,099	403,623
Gross Rental Income	3,829,231	3,596,157	944,804	437,736	719,750	740,345	761,764	504,135	491,417	373,172	388,099	403,623
Operating Expenses	1,902,966	1,955,908	1,852,952	1,888,148	1,957,475	2,034,909	2,115,440	2,177,571	2,264,674	2,355,261	2,449,471	2,547,450
Net Operating Income	1,926,265	1,640,249	(908,148)	(1,450,412)	(1,237,725)	(1,294,564)	(1,353,676)	(1,673,436)	(1,773,257)	(1,982,089)	(2,061,372)	(2,143,827)
Debt Service			(1,213,322)	(3,578,713)	(3,497,506)	(3,571,855)	(3,569,704)	(3,567,609)	(3,565,288)	(3,562,458)	(3,558,836)	(3,554,141)
Cash Flow	1,926,265	1,640,249	(2,121,470)	(5,028,125)	(4,735,231)	(4,866,418)	(4,923,380)	(5,241,044)	(5,338,544)	(5,544,546)	(5,620,209)	(5,697,969)

Total Debt Service (65,046,741)

	1st round finance	2nd round finance
Sales price of BankAmerica	25,950,000	0
SF of TI's	190,000	0
\$ per SF of TI's	15	0
Cost of TI's to move in	2,850,000	0
Data wiring (incl. phone wiring)	520,000	0
Router and Line-In	45,000	0
ADA Upgrades	107,000	0
Code Compliance	570,000	0
Project Management	73,900	0
Move	285,000	0
Contingency fund	500,000	0
SF of leases to buy out	175,000	0
\$ per SF per year to buy out	20	0
Cost of buying out existing leases	3,500,000	0
Project costs	34,400,900	0
Previous debt balance	0	38,420,000
Underwriter's discount	114,195	280,650
Other costs of issuance	165,000	1,524,000
Capitalized Interest	4,488,639	0
Less interest earned on Const. \$\$	(1,107,053)	0
Financing Contingency	4,219	4,950
Total amount of debt	38,065,900	40,229,600

**Parking Income Assumptions:**  
Total number of spaces - 646  
FY 1999 - Uses appraisers income figures.  
FY 1999 - Uses appraisers income figures, with no escalation, as many tenants will be leaving the building.  
FY 2000 - Uses only the the parking income, without escalation, from the two tenants that will most likely remain in the building after the period of remodeling and buildout construction is over in FY 2001.  
FY 2001 - Same assumptions as FY 2000.  
FY 2002 through FY 2022 - All parking spaces are filled at the rate of \$45 per space per month, with escalation beginning in FY 2002 at the annual CPI rate. Seventy-five spaces will be set aside for guest and State vehicle parking, and therefore will be deducted from the income stream.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Rent from other tenants												
Aggregated Annual rent	3,649,891	3,416,817	931,004	423,936	413,030	421,356	430,016	159,117	132,598	0	0	0
Rent income from parking	179,340	179,340	13,800	13,800	306,720	318,989	331,748	345,018	358,819	373,172	388,099	403,623
Total Rent Income from tenants	3,829,231	3,596,157	944,804	437,736	719,750	740,345	761,764	504,135	491,417	373,172	388,099	403,623

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
\$1.91	\$1.94	\$1.97	\$2.00	\$2.03	\$2.07	\$2.10	\$2.14	\$2.17	\$1.05	\$1.09	\$1.14	\$1.18	\$1.23	\$1.28	\$1.33
\$22.97	\$23.31	\$23.66	\$24.03	\$24.40	\$24.80	\$25.21	\$25.63	\$26.04	\$12.60	\$13.11	\$13.63	\$14.18	\$14.74	\$15.33	\$15.95
2,777,791	2,888,903	3,004,459	3,124,637	3,249,622	3,379,607	3,514,792	3,655,383	3,801,599	3,953,663	4,111,809	4,276,281	4,447,333	4,625,226	4,810,235	5,002,644
\$11.03	\$11.47	\$11.93	\$12.41	\$12.91	\$13.42	\$13.96	\$14.52	\$15.10	\$15.70	\$16.33	\$16.98	\$17.66	\$18.37	\$19.10	\$19.87
\$0.92	\$0.96	\$0.99	\$1.03	\$1.08	\$1.12	\$1.16	\$1.21	\$1.26	\$1.31	\$1.36	\$1.42	\$1.47	\$1.53	\$1.59	\$1.66
419,767	436,558	454,021	472,181	491,069	510,711	531,140	552,385	574,481	597,460	621,358	646,213	672,061	698,944	726,901	755,978

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
419,767	436,558	454,021	472,181	491,069	510,711	531,140	552,385	574,481	597,460	621,358	646,213	672,061	698,944	726,901	755,978
419,767	436,558	454,021	472,181	491,069	510,711	531,140	552,385	574,481	597,460	621,358	646,213	672,061	698,944	726,901	755,978
2,649,348	2,755,322	2,865,535	2,980,156	3,099,362	3,223,337	3,352,270	3,486,361	3,625,816	3,770,848	3,921,682	4,078,549	4,241,691	4,411,359	4,587,813	4,771,326
(2,229,580)	(2,318,764)	(2,411,514)	(2,507,975)	(2,608,294)	(2,712,625)	(2,821,130)	(2,933,976)	(3,051,335)	(3,173,388)	(3,300,324)	(3,432,337)	(3,569,630)	(3,712,415)	(3,860,912)	(4,015,348)
(3,552,949)	(3,549,835)	(3,544,518)	(3,541,573)	(3,535,576)	(3,531,105)	(3,527,594)	(3,519,619)	(3,504,543)	0	0	0	0	0	0	0
(5,782,529)	(5,868,599)	(5,956,032)	(6,049,547)	(6,143,870)	(6,243,730)	(6,348,724)	(6,453,594)	(6,555,878)	(3,173,388)	(3,300,324)	(3,432,337)	(3,569,630)	(3,712,415)	(3,860,912)	(4,015,348)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022			
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
419,767	436,558	454,021	472,181	491,069	510,711	531,140	552,385	574,481	597,460	621,358	646,213	672,061	698,944	726,901	755,978
419,767	436,558	454,021	472,181	491,069	510,711	531,140	552,385	574,481	597,460	621,358	646,213	672,061	698,944	726,901	755,978

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
\$1.38	\$1.44	\$1.49	\$1.55	\$1.62	\$1.68	\$1.75	\$1.82	\$1.89	\$1.07	\$2.05	\$2.13
\$16.59	\$17.25	\$17.94	\$18.66	\$19.40	\$20.18	\$20.99	\$21.83	\$22.70	\$23.61	\$24.55	\$25.53
5,202,750	5,410,860	5,627,295	5,852,386	6,086,482	6,329,941	6,583,139	6,846,464	7,120,323	7,405,136	7,701,341	8,009,395
\$20.66	\$21.49	\$22.35	\$23.24	\$24.17	\$25.14	\$26.15	\$27.19	\$28.28	\$29.41	\$30.59	\$31.81
\$1.72	\$1.79	\$1.86	\$1.94	\$2.01	\$2.10	\$2.18	\$2.27	\$2.36	\$2.45	\$2.55	\$2.65
786,217	817,665	850,372	884,387	919,762	956,553	994,815	1,034,607	1,075,992	1,119,031	1,163,793	1,210,344

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
0	0	0	0	0	0	0	0	0	0	0	0
786,217	817,665	850,372	884,387	919,762	956,553	994,815	1,034,607	1,075,992	1,119,031	1,163,793	1,210,344
786,217	817,665	850,372	884,387	919,762	956,553	994,815	1,034,607	1,075,992	1,119,031	1,163,793	1,210,344
4,962,179	5,160,666	5,367,093	5,581,776	5,805,047	6,037,249	6,278,739	6,529,889	6,791,084	7,062,728	7,345,237	7,639,046
(4,175,962)	(4,343,001)	(4,516,721)	(4,697,390)	(4,885,285)	(5,080,697)	(5,283,924)	(5,495,281)	(5,715,093)	(5,943,696)	(6,181,444)	(6,428,702)
0	0	0	0	0	0	0	0	0	0	0	0
(4,175,962)	(4,343,001)	(4,516,721)	(4,697,390)	(4,885,285)	(5,080,697)	(5,283,924)	(5,495,281)	(5,715,093)	(5,943,696)	(6,181,444)	(6,428,702)

0	0	0	0	0	0	0	0	0	0	0	0
786,217	817,665	850,372	884,387	919,762	956,553	994,815	1,034,607	1,075,992	1,119,031	1,163,793	1,210,344
786,217	817,665	850,372	884,387	919,762	956,553	994,815	1,034,607	1,075,992	1,119,031	1,163,793	1,210,344

Revision Date: April 22, 1997 Dept. Affected: Revenue  
 Title: Anchorage Office Building BRU: Revenue Operations  
 Component: Treasury  
 Sponsor: (H) FIN  
 Requestor: (H) FIN COMPONENT SERIAL NO. 121

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS - LEASE PAYMENTS	0.0	0.0	1,213.3	3,578.7	3,497.5	3,571.9
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>1,213.3</b>	<b>3,578.7</b>	<b>3,497.5</b>	<b>3,571.9</b>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	1,213.3	3,578.7	3,497.5	3,571.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>1,213.3</b>	<b>3,578.7</b>	<b>3,497.5</b>	<b>3,571.9</b>

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The bill authorizes lease-purchase financing of less than \$38.9 million to purchase the Bank of America building in Anchorage, with annual lease payments of less than \$4.07 million and total lease payments of less than \$81.4 million.

A financing plan has been structured for the State to acquire the property within the above guidelines. It includes the use of taxable certificates of participation for four (4) years, followed by the use of tax-exempt certificates of participation for 16 years, for a total term of twenty years. The financing plan defers lease payments for two years and gives the State flexibility on converting to tax-exempt financing depending on future operational events in the building and on future interest rates. Above, and on the attached schedules, are projected lease-purchase payments based on current interest rates.

Prepared by: Forrest Browne  
 Division: Treasury  
 Approved by Commissioner: Ross Kinney, Deputy Commissioner  
 Agency: Revenue

Phone: 465-3750  
 Date: April 22, 1997  
 Date: April 22, 1997

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE  
 For further distribution information call the Governor's Legislative Office

Dated: 9/1/97  
 Delivered: 9/1/97

**Sizing Debt Services Schedule**  
**ANCHORAGE OFFICE**  
**CURRENT TAXABLE**

Fiscal Yr	Coupon M Y Y	Zer Date	Cpn Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Cap Int	DebtSvcRsv Int&Prln	CntgncyFnd Int&Prln	NetSemi-AnnlDbtSvc	Net Fiscal Dbt Svc
9 98		3/1/98			1,213,321.88	1,213,321.88	1,213,321.88				
3 99		9/1/98			1,213,321.88	1,213,321.88	1,213,321.88				
1 9 99		3/1/99			1,213,321.88	1,213,321.88	1,213,321.88				
3 0		9/1/99			1,213,321.88	1,213,321.88	1,213,321.88				
2 9 0		3/1/00			1,213,321.88	1,213,321.88				1,213,321.88	1,213,321.88
3 1	9/1/00	N	6.375	1,190,000.00	1,213,321.88	2,403,321.88				2,403,321.88	
3 9 1	3/1/01				1,175,390.63	1,175,390.63				1,175,390.63	3,578,712.50
3 2	9/1/01	N	6.375	1,265,000.00	1,175,390.63	2,440,390.63				2,440,390.63	

(Page 2 of 3)

Sizing Debt Services Schedule

Dated: 9/1/01  
Delivered: 9/1/01

ANCHORAGE OFFICE  
TAX-EXEMPT

Fiscal Yr	Coupon M Y Y	Zer Cpn Date	Cpn Rate	Maturing Prncpal	Periodic Interest	Gross Semi- Annl Dbt Svc	Cap Int	DebtSvcRsv Int&Prin	CntlgncyFnd Int&Prin	NetSemi- AnnlDbtSvc	Net Fiscal Dbt Svc
9	2	3/1/02			1,057,115.00	1,057,115.00				1,057,115.00	1,057,115.00
3	3	9/1/02	N	5.650	1,500,000.00	1,057,115.00	2,557,115.00			2,557,115.00	
1	9	3/1/03			1,014,740.00	1,014,740.00				1,014,740.00	3,571,855.00
3	4	9/1/03	N	5.650	1,585,000.00	1,014,740.00	2,599,740.00			2,599,740.00	
2	9	4/1/04			969,963.75	969,963.75				969,963.75	3,569,703.75
3	5	9/1/04	N	5.650	1,675,000.00	969,963.75	2,644,963.75			2,644,963.75	
3	8	9/1/05			922,645.00	922,645.00				922,645.00	3,567,608.75
3	6	9/1/05	N	5.650	1,770,000.00	922,645.00	2,692,645.00			2,692,645.00	
4	9	6/1/06			872,642.50	872,642.50				872,642.50	3,565,287.50
3	7	9/1/06	N	5.650	1,870,000.00	872,642.50	2,742,642.50			2,742,642.50	
5	9	7/3/07			819,815.00	819,815.00				819,815.00	3,562,457.50
3	8	9/1/07	N	5.650	1,975,000.00	819,815.00	2,794,815.00			2,794,815.00	
6	9	8/21/08			764,021.25	764,021.25				764,021.25	3,558,836.25
3	9	9/1/08	N	5.650	2,085,000.00	764,021.25	2,849,021.25			2,849,021.25	
7	9	3/1/09			705,120.00	705,120.00				705,120.00	3,554,141.25
3	10	9/1/09	N	5.650	2,205,000.00	705,120.00	2,910,120.00			2,910,120.00	
8	9	10/3/10			642,828.75	642,828.75				642,828.75	3,552,948.75
3	11	9/1/10	N	5.650	2,330,000.00	642,828.75	2,972,828.75			2,972,828.75	
9	9	11/3/11			577,006.25	577,006.25				577,006.25	3,549,835.00
3	12	9/1/11	N	5.650	2,460,000.00	577,006.25	3,037,006.25			3,037,006.25	
10	9	12/3/12			507,511.25	507,511.25				507,511.25	3,544,517.50
3	13	9/1/12	N	5.650	2,600,000.00	507,511.25	3,107,511.25			3,107,511.25	
11	9	13/3/13			434,061.25	434,061.25				434,061.25	3,541,572.50
3	14	9/1/13	N	5.650	2,745,000.00	434,061.25	3,179,061.25			3,179,061.25	
12	9	14/3/14			356,515.00	356,515.00				356,515.00	3,535,576.25
3	15	9/1/14	N	5.650	2,900,000.00	356,515.00	3,256,515.00			3,256,515.00	
13	9	15/3/15			274,590.00	274,590.00				274,590.00	3,531,105.00
3	16	9/1/15	N	5.650	3,065,000.00	274,590.00	3,339,590.00			3,339,590.00	
14	9	16/3/16			188,003.75	188,003.75				188,003.75	3,527,593.75
3	17	9/1/16	N	5.650	3,235,000.00	188,003.75	3,423,003.75			3,423,003.75	
15	9	17/3/17			96,615.00	96,615.00				96,615.00	3,519,618.75
3	18	9/1/17	N	5.650	3,420,000.00	96,615.00	3,516,615.00		12,071.58	3,504,543.42	

Prepared by: FORREST BROWNE, DOR - TREASURY  
 Prepared on: 4/22/97 11:45 8.20 Rpt 14  
 Record ID: OFFICE-2001-BI :MUNIDB

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

130 Seward Street, Suite 409  
Juneau, Alaska 99801-2105

APR 18 1997

## MEMORANDUM

April 18, 1997

**SUBJECT:** Amendment to HB 236 and municipal property tax considerations  
(Work Order No. 20-LS0791\B.1)

**TO:** Representative Norman Rokeberg

**FROM:** *TB*  
Theresa Bannister  
Legislative Counsel

This memo accompanies the amendment described above.

Under this amendment, the state is required to pass on to the municipality the taxes attributable to the private tenants in the building. Under AS 29.45.030(a)(1)(A), even if the state owns the building, the municipality may tax private leaseholds in the building. This amendment is drafted to apply when the state is considered under the lease purchase agreement to have title to the building.

However, I do not know when this will be. To determine the municipal property tax ramifications of the agreement, it would be helpful to ascertain the specific arrangements made by the agreement and whether the state will be considered to hold title to the property under these specific arrangements. For example, if this is a trusteeship arrangement with certificates of participation, will the state be considered to hold title during the term of the lease purchase agreement? If the state does not receive title at the outset of the agreement, and if the present owner is a private entity, then the entire building may be subject to municipal property taxes after the lease purchase agreement is entered into.

If the state does not receive title, or is not considered to be the owner for tax purposes, at the outset of the agreement, the introductory clause beginning with "when" and ending with "AS 29.45.030(a)(1)," and "under AS 29.45.030(a)(1)" in the amendment should be deleted. If I may be of further assistance, please advise.

TLB:jdr  
97-279.jdr

Enclosure

adopted 2/6/03j

AMENDMENT 1

OFFERED IN THE HOUSE

BY REPRESENTATIVE ROKEBERG

TO: HB 236

1 Page 1, line 3, following "agreement;":

2 Insert "relating to the municipal taxation of certain lease interests in the  
3 building;"

4 Page 1, line 13, following "term.":

5 Insert "When the building is state property exempt under AS 29.45.030(a)(1), the state  
6 shall pay to the municipality under AS 29.45.030(a)(1)(A) the property taxes attributable to  
7 the private tenants in the office building."

PUBLIC SCHOOL FOUNDATION PROGRAM ASSISTANCE (AS 14.17)	\$
STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT (AS 14.11.100)	\$
MUNICIPAL TAX RESOURCE EQUALIZATION ASSISTANCE (AS 29.60.010 — 29.60.080)	\$
STATE AID FOR MISCELLANEOUS MUNICIPAL SERVICES (AS 29.60.100 — 29.60.180)	\$
TOTAL AID	\$

The millage equivalent of this state aid, based on the dollar value of a mill in the municipality during the current assessment year and for the preceding assessment year, is:

	MILLAGE EQUIVALENT	
	PREVIOUS YEAR	THIS YEAR
PUBLIC SCHOOL FOUNDATION PROGRAM ASSISTANCE	...MILLS	...MILLS
STATE AID FOR RETIREMENT OF SCHOOL CONSTRUCTION DEBT	...MILLS	...MILLS
MUNICIPAL TAX RESOURCE EQUALIZATION ASSISTANCE	...MILLS	...MILLS
STATE AID FOR MISCELLANEOUS MUNICIPAL SERVICES	...MILLS	...MILLS
TOTAL MILLAGE EQUIVALENT	...MILLS	...MILLS*

Notice shall be provided

(1) by furnishing a copy of the notice with tax statements mailed for the fiscal year for which aid is received; or

(2) by publishing in a newspaper of general circulation in the municipality a copy of the notice once each week for a period of three successive weeks, with publication to occur not later than 45 days after the final adoption of the municipality's budget.

(b) Compliance with the provisions of this section is a prerequisite to receipt of municipal tax resource equalization assistance under AS 29.60.010 — 29.60.080 and state aid for miscellaneous municipal services under AS 29.60.100 — 29.60.180. The department shall withhold annual allocations under those sections until municipal officials demonstrate that the requirements of this section have been met. (§ 12 ch 74 SLA 1985)

**Sec. 29.45.030. Required exemptions.** (a) The following property is exempt from general taxation:

(1) municipal property, including property held by a public corporation of a municipality, or state property, or land that is in the trust established by the Alaska Mental Health Enabling Act of 1956, P.L. 84-830, 70 Stat. 709, except that

(A) a private leasehold, contract, or other interest in the property is taxable to the extent of the interest;

(B) notwithstanding any other provision of law, property acquired by an agency, corporation, or other entity of the state through foreclosure or deed in lieu of foreclosure and retained as an investment of a state entity is taxable; this subparagraph does not apply to federal land granted to the University of Alaska under AS 14.40.380 or 14.40.390, or to other land granted to the university by the state to replace land that had been granted under AS 14.40.380 or 14.40.390;

(C) an ownership interest of a municipality in real property located outside the municipality acquired after December 31, 1990, is taxable by another municipality; however, a borough may not tax an interest in real property located in the borough and owned by a city in that borough;

prescribe penalties

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FEB 24 1997

Municipality  
of  
Anchorage



P.O. Box 196650  
Anchorage, Alaska 99519-0650  
Telephone: (907) 343-4433

*Rick Mystrom, Mayor*

OFFICE OF THE MUNICIPAL MANAGER

February 20, 1997

Representative Norm Rokeberg  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801

Dear Representative Rokeberg:


Per our discussion earlier this week, I am enclosing information regarding the assessment history of the Equitable Life Properties the State is negotiating to purchase.

The attached spread sheet breaks down the assessed value by land and improvements for years 1996 and 1997. For comparison purposes, total assessment for 1986 is also shown. 1986 is the year for which the property had the highest assessed value.

As is noted, the tax assessment for 1996 was nearly \$500,000. The mill rate for 1997 is yet to be set, but based on 1996's rate, the taxes for 1997 would be \$496,146. If this property was removed from the tax rolls, it would amount to about \$4.00 per \$100,000 for the other property owners in Anchorage.

If you wish any additional information about this matter, please don't hesitate to contact me.

Sincerely,

  
Larry D. Crawford  
Municipal Manager

cc: Dugan Petty, Director , Division of General Services

enclosure

**ASSESSMENT/PROPERTY TAX COMPARISION  
EQUITABLE LIFE DOWNTOWN PROPERTIES**

Description	1996			1997			1986
	Land	Improvements	Total	Land	Improvements	Total	Total
Block 79	\$ 1,175,700	\$ 22,401,400	\$ 23,577,100	\$ 1,119,700	\$ 22,421,800	\$ 23,541,500	\$ 37,111,800
Block 80	\$ 1,638,000	\$ 52,800	\$ 1,690,800	\$ 1,680,000	\$ 49,200	\$ 1,729,200	\$ 4,476,200
Block 102	\$ 1,260,500	\$ 45,500	\$ 1,306,000	\$ 1,120,400	\$ 41,800	\$ 1,162,200	\$ 3,725,500
Total	\$ 4,074,200	\$ 22,499,700	\$ 26,573,900	\$ 3,920,100	\$ 22,512,800	\$ 26,432,900	\$ 45,313,500
Mill Rate (1996)			0.01877			0.01877	
Property Tax			\$ 498,792			\$ 496,146	

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



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### M E M O R A N D U M

**TO:** The Honorable Gene Therriault  
The Honorable Mark Hanley  
Co-Chairs, House Finance Committee

**FROM:** Randy S. Welker  
Legislative Auditor

A handwritten signature in cursive script, appearing to read "Randy", written over the printed name "Randy S. Welker".

**DATE:** April 23, 1997

**RE:** Anchorage Office Building

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For over a month, we have been reviewing information on the proposed acquisition of an office building in Anchorage. We have worked closely with the Division of General Services and their consultants in discussing and modifying the financial analysis of the deal.

On March 24, 1997, we distributed a financial analysis and cover memo to all members of the Legislature in which we characterized the proposal as overly optimistic and a best case scenario. Our primary concern was with the time line envisioned for having the current tenants out of the building and moving the state agencies currently occupying the Frontier building into the new facility.

Since that time, we have further analyzed the financial information and changes that have been made to the underlying assumptions and spreadsheets summarizing the deal. We now believe that the significant issues that we initially had concerns over have been adequately addressed. In fact, we are in close enough agreement with the analysis of the deal that we see no need to generate our own spreadsheet analysis. Ours would be, in all material respects, the same as that presented by the Department of Administration.

We will identify any other items for you in testimony before the Committee. However, we believe the analysis by the Department of Administration is a realistic scenario that adequately takes into consideration all relevant and significant issues that should be addressed.

Therefore, we agree with that analysis and believe that the acquisition of the proposed office building is in the State's best interest.

# ALASKA STATE LEGISLATURE

## LEGISLATIVE BUDGET AND AUDIT COMMITTEE

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### MEMORANDUM

**TO:** Members of the Alaska State Legislature

**FROM:** Randy S. Welker  
Legislative Auditor *Randy*

**DATE:** March 24, 1997

**RE:** Anchorage Office Building Acquisition Analysis

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At the request of several legislators and with the concurrence of the Chairman of the Legislative Budget and Audit Committee, the Division of Legislative Audit has reviewed the Department of Administration's proposal to purchase an office building in downtown Anchorage, commonly referred to as the Bank of America building. This memo and accompanying schedules contain our analysis.

This type of analysis is a challenge for an auditor! We are accustomed to dealing in documented facts; in reality, there are more assumptions and projections in the department's proposal than facts. However, that is the nature of this type of decision process.

The analysis prepared by the department looks at three scenarios, but actually boils down to a decision of whether to continuing leasing or to buy an office building. The scenario presented as the buy option is, in our opinion, an overly optimistic best case view and is likely understated. Unfortunately, we cannot quantify the degree of understatement because of the nature of the underlying assumptions.

The key concern we have with the analysis is the time line envisioned for moving out of the Frontier building and, correspondingly, the need to make space available in the subject property. The department's analysis assumes that none of the current non-state tenants of the building will exercise exclusive options and stay in the building. There are many leases with such options. The difficulty lies in trying to determine whether the exercise of an option is truly an intent to stay in the building or simply posturing for lease buy-out purposes.

This determination is further compounded by the lack of comparable Class A space in downtown Anchorage to accommodate the current lessees who, by the nature of their business, have a vital interest in remaining downtown. Simply put, there are limited options available to them. The strategy of the State in dealing with this concern will drive the bottom line in the cost analysis.

The financing proposal for purchasing the building envisions taxable financing for three years followed by a refinancing to tax-exempt status. The ability to issue tax exempt financing is generally driven by the requirement of the State to occupy 50% of the facility at the time of refinancing. Again, because of the optimistic timeline mentioned above, the change to tax exempt financing may not transpire as quickly as planned.

We are also concerned that the scenarios presented were not fully explored for options. The financing proposal was developed by the Department of Revenue's Treasury Division and as far as we are aware, the issuance of Certificates of Participation (COPs) was the only financing option considered.

The Alaska Housing Finance Corporation (AHFC) has the authority to issue general obligation bonds for public facilities. No one has had meaningful discussions with AHFC in this regard.

Likewise, we see no indication that a cash purchase was considered. Either a General Fund, Constitutional Budget Reserve Fund, Permanent Fund Earnings Reserve, or AHFC cash purchase are all options that should be part of the public debate.

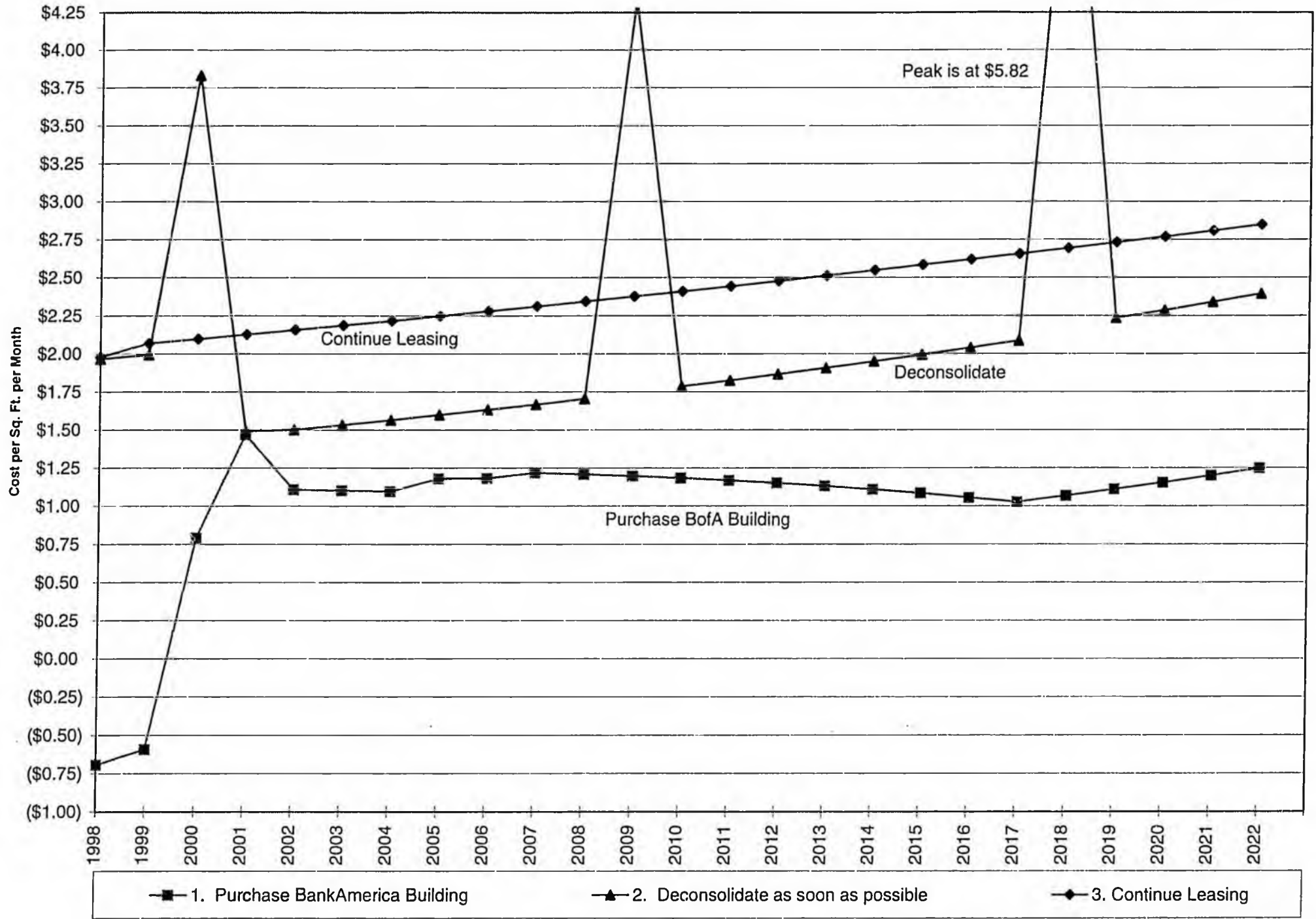
On the other hand, while all this discussion indicates that the estimated costs may be understated, the benefits of ultimately owning a Class A facility should not be overlooked. Depending on the length of time you use in an analysis, eventually, buying this facility should make sense. At the time of acquisition, the State will have title to a facility that would cost in excess of \$50 million to construct and is considered one of the best Class A facilities in Anchorage.

The department has indicated that they will show their analysis over approximately a 25-year period. We have prepared ours over a 19-year period coinciding with the proposed debt service. We have added one "non-add" year to show the impact on costs once the facility is debt free.

The attached analysis is not intended to be comprehensive or conclusive, but a vehicle for constructive public discussion. We will be available at your convenience to further discuss the information presented.

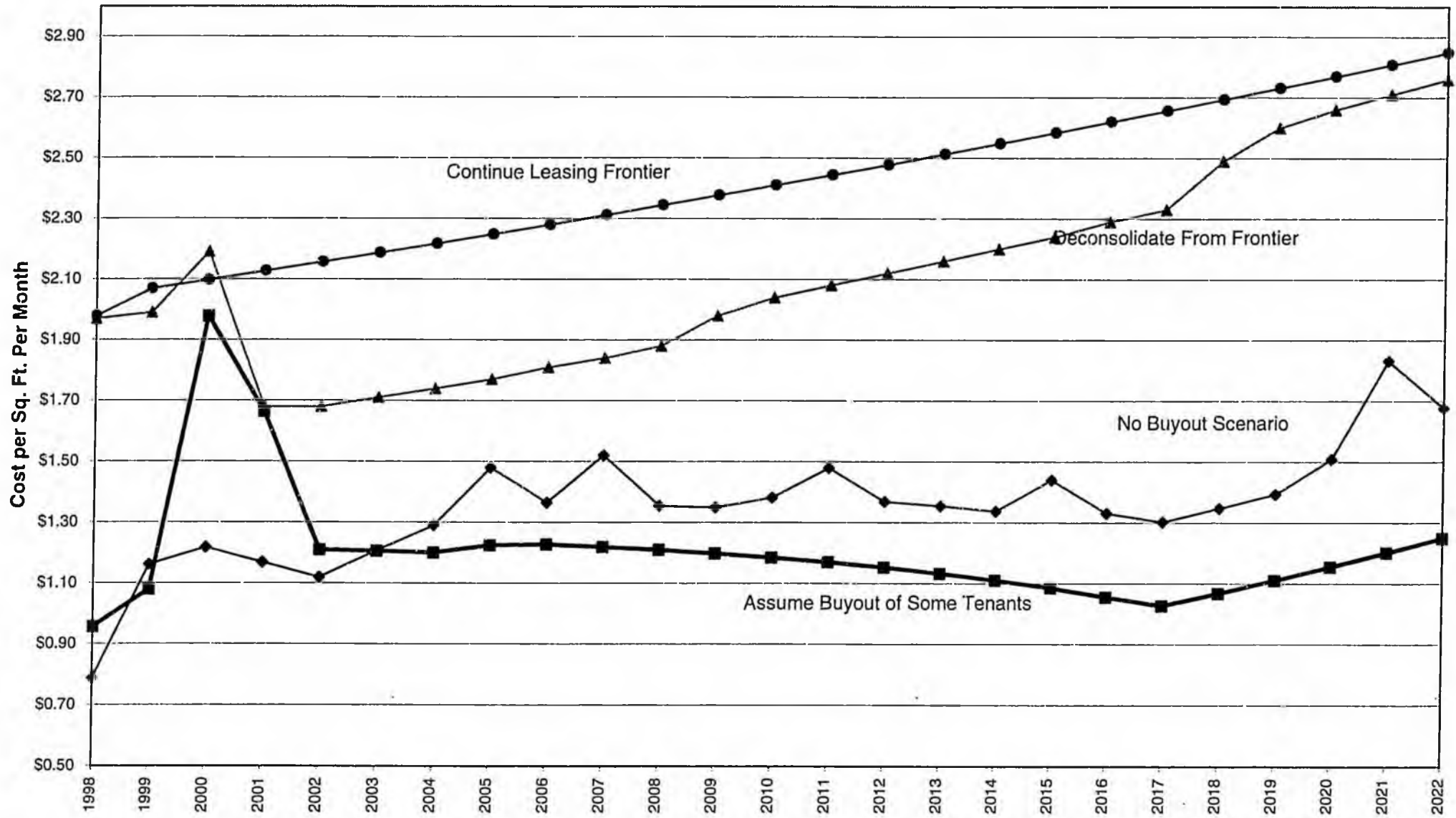
Attachment

### Anchorage Office Options



Page 1

### Anchorage Office Options Including No-Buyout Option



**COMPARISON OF CONTINUING LEASING 251,786sf  
VERSUS PURCHASING BANK OF AMERICA BUILDING**

**PURCHASE BANK OF AMERICA BUILDING**

Location	Usable Area	Rent @ USF/MO.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Lease 2011 @ Frontier	135,922 sf	\$2.20	\$3,587,917	\$3,637,012	\$2,148,523	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Lease 2096 @ Frontier	40,231 sf	\$2.06	\$993,110	\$1,007,014	\$1,021,112	\$172,313	\$0	\$0	\$0	\$0	\$0	\$0
Lease 2012 @ Bank Of America	53,255 sf	\$0.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Rent From "Other State Leases"	22,378 sf	\$1.50	\$402,804	\$408,443	\$414,161	\$419,960	\$304,755	\$309,022	\$313,348	\$130,903	\$132,736	\$0
Revenue From Existing B of A Tenants			(\$3,829,231)	(\$3,596,157)	(\$944,804)	(\$437,736)	(\$719,750)	(\$740,345)	(\$761,764)	(\$504,135)	(\$491,417)	(\$373,172)
B of A Operating Costs			\$1,735,000	\$1,804,400	\$1,876,576	\$1,951,639	\$2,029,705	\$2,110,893	\$2,195,328	\$2,283,142	\$2,374,467	\$2,469,446
Debt Service on Bonds			\$0	\$0	\$1,462,192	\$2,924,384	\$3,860,102	\$3,863,662	\$3,860,062	\$3,859,972	\$3,862,682	\$3,862,437
Equity Build-up From Bond Amortization			\$0	\$0	\$0	\$0	(\$1,820,000)	(\$1,900,000)	(\$1,980,000)	(\$2,070,000)	(\$2,170,000)	(\$2,275,000)
<b>Total Expense From This Analysis (1998 - 2007)</b>			<b>\$2,889,600</b>	<b>\$3,260,712</b>	<b>\$5,977,760</b>	<b>\$5,030,560</b>	<b>\$3,654,812</b>	<b>\$3,643,232</b>	<b>\$3,626,975</b>	<b>\$3,699,882</b>	<b>\$3,708,468</b>	<b>\$3,683,711</b>

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Monthly Cost/USF to Purchase B of A Center	\$0.96	\$1.08	\$1.98	\$1.66	\$1.21	\$1.21	\$1.20	\$1.22	\$1.23	\$1.22

Location	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue From Existing B of A Tenants	(\$388,099)	(\$403,623)	(\$419,768)	(\$436,558)	(\$454,021)	(\$472,182)	(\$491,069)	(\$510,712)	(\$531,140)	(\$552,386)
B of A Operating Costs	\$2,568,224	\$2,670,953	\$2,777,791	\$2,888,903	\$3,004,459	\$3,124,637	\$3,249,622	\$3,379,607	\$3,514,792	\$3,655,383
Debt Service on Bonds	\$3,863,687	\$3,861,797	\$3,861,277	\$3,861,357	\$3,861,237	\$3,860,087	\$3,862,047	\$3,865,942	\$3,864,896	\$0
Equity Build-up From Bond Amortization	(\$2,390,000)	(\$2,510,000)	(\$2,640,000)	(\$2,780,000)	(\$2,930,000)	(\$3,090,000)	(\$3,265,000)	(\$3,455,000)	(\$3,660,000)	\$0
<b>Total Expense From This Analysis (2008 - 2017)</b>	<b>\$3,653,812</b>	<b>\$3,619,127</b>	<b>\$3,579,300</b>	<b>\$3,533,701</b>	<b>\$3,481,675</b>	<b>\$3,422,542</b>	<b>\$3,355,601</b>	<b>\$3,279,838</b>	<b>\$3,188,548</b>	<b>\$3,102,998</b>

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Monthly Cost/USF to Purchase B of A Center	\$1.21	\$1.20	\$1.18	\$1.17	\$1.15	\$1.13	\$1.11	\$1.09	\$1.06	\$1.03

**COMPARISON OF CONTINUING LEASING 251,736sf  
VERSUS PURCHASING BANK OF AMERICA BUILDING**

## CONTINUE LEASING FRONTIER BUILDING

Location	Usable Area	Rent @ USF/MO.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Lease 2011 @ Frontier	135,922 sf	\$2.20	\$3,587,917	\$3,637,012	\$3,687,930	\$3,739,561	\$3,791,915	\$3,845,002	\$3,898,832	\$3,953,416	\$4,008,763	\$4,064,886
Lease 2096 @ Frontier	40,231 sf	\$2.06	\$993,110	\$1,007,014	\$1,021,112	\$1,035,407	\$1,049,903	\$1,064,602	\$1,079,506	\$1,094,619	\$1,109,944	\$1,125,483
Lease 2012 @ Bank Of America	53,255 sf	\$1.55	\$993,190	\$1,197,302	\$1,214,064	\$1,231,061	\$1,248,296	\$1,265,772	\$1,283,493	\$1,301,462	\$1,319,682	\$1,338,158
Rent From "Other State Leases"	22,378 sf	\$1.50	\$402,804	\$408,443	\$414,161	\$419,960	\$425,839	\$431,801	\$437,846	\$443,976	\$450,192	\$456,494
Total Expense From This Analysis (1998 - 2007)			\$5,977,021	\$6,249,771	\$6,337,268	\$6,425,989	\$6,515,953	\$6,607,177	\$6,699,677	\$6,793,472	\$6,888,581	\$6,985,021
Monthly Cost/USF to Continue Leasing Frontier			1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
			\$1.98	\$2.07	\$2.10	\$2.13	\$2.16	\$2.19	\$2.22	\$2.25	\$2.28	\$2.31

Location	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Lease 2011 @ Frontier	\$4,121,794	\$4,179,500	\$4,238,013	\$4,297,345	\$4,357,508	\$4,418,513	\$4,480,372	\$4,543,097	\$4,606,700	\$4,671,194	
Lease 2096 @ Frontier	\$1,141,240	\$1,157,217	\$1,173,418	\$1,189,846	\$1,206,504	\$1,223,395	\$1,240,522	\$1,257,890	\$1,275,500	\$1,293,357	
Lease 2012 @ Bank Of America	\$1,356,892	\$1,375,889	\$1,395,151	\$1,414,683	\$1,434,489	\$1,454,572	\$1,474,936	\$1,495,585	\$1,516,523	\$1,537,754	
Rent From "Other State Leases"	\$462,885	\$469,366	\$475,937	\$482,600	\$489,356	\$496,207	\$503,154	\$510,198	\$517,341	\$524,584	
Total Expense From This Analysis (2008 - 2017)		\$7,082,812	\$7,181,971	\$7,282,518	\$7,384,474	\$7,487,856	\$7,592,686	\$7,698,984	\$7,806,770	\$7,916,065	\$8,026,889
Monthly Cost/USF to Continue Leasing Frontier		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
		\$2.34	\$2.38	\$2.41	\$2.44	\$2.48	\$2.51	\$2.55	\$2.58	\$2.62	\$2.66

(PAGE THREE)

**COMPARISON OF CONTINUING LEASING 251,786sf  
VERSUS PURCHASING BANK OF AMERICA BUILDING**

**DECONSOLIDATE FROM FRONTIER**

Location	Usable Area	Rent @ USF/MO.	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Lease 2011 & 2096 @ Frontier	176,151 sf	\$2.17	\$4,581,027	\$4,644,026	\$3,169,635	\$172,313	\$0	\$0	\$0	\$0	\$0	\$0
Lease "Other State Leases"	75,635 sf	\$1.50	\$1,361,430	\$1,380,490	\$816,560	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Replacement Space After Deconsolidation			\$0	\$0	\$1,636,609	\$3,881,277	\$4,061,608	\$4,137,521	\$4,215,258	\$4,294,877	\$4,376,434	\$4,459,991
Deconsolidation Remodel/Relocation Expense			\$0	\$0	\$551,489	\$551,489	\$551,489	\$551,489	\$551,489	\$551,489	\$551,489	\$551,489
Deconsolidation Inefficiency			\$0	\$0	\$440,331	\$457,944	\$457,944	\$476,262	\$495,312	\$515,125	\$535,730	\$557,159
<b>Total Expense From This Analysis (1998 - 2007)</b>			<b>\$5,942,457</b>	<b>\$6,024,516</b>	<b>\$6,614,624</b>	<b>\$5,063,023</b>	<b>\$5,071,041</b>	<b>\$5,165,272</b>	<b>\$5,262,060</b>	<b>\$5,361,491</b>	<b>\$5,463,653</b>	<b>\$5,568,639</b>
<b>Monthly Cost/USF to Deconsolidate From Frontier</b>			<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
			\$1.97	\$1.99	\$2.19	\$1.68	\$1.68	\$1.71	\$1.74	\$1.77	\$1.81	\$1.84

Location	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Replacement Space After Deconsolidation	\$4,545,609	\$4,609,247	\$4,745,148	\$4,837,652	\$4,932,494	\$5,029,748	\$5,129,492	\$5,231,805	\$5,336,771	\$5,444,475
Deconsolidation Remodel/Relocation Expense	\$551,489	\$784,949	\$784,949	\$784,949	\$784,949	\$784,949	\$784,949	\$784,949	\$784,949	\$784,949
Deconsolidation Inefficiency	\$579,446	\$602,623	\$626,728	\$651,797	\$677,869	\$704,984	\$733,183	\$762,511	\$793,011	\$824,732
<b>Total Expense From This Analysis (2008 - 2017)</b>	<b>\$5,676,544</b>	<b>\$5,996,819</b>	<b>\$6,156,825</b>	<b>\$6,274,398</b>	<b>\$6,395,312</b>	<b>\$6,519,681</b>	<b>\$6,647,624</b>	<b>\$6,779,265</b>	<b>\$6,914,731</b>	<b>\$7,054,156</b>
<b>Monthly Cost/USF to Deconsolidate From Frontier</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
	\$1.88	\$1.98	\$2.04	\$2.08	\$2.12	\$2.16	\$2.20	\$2.24	\$2.29	\$2.33

Savings Summary

	TOTAL FY 1998-2022	SUMMARY OF COST SAVINGS BANK OF AMERICA BUILDING					
		Fiscal Years:					
		1998	1999	2000	2001	2002	2003
<b>CONTINUE LEASING:</b>							
Lease 2011 Rent (FY 98: \$2.20 / USF / Mo.)	\$106,484,699	\$3,587,917	\$3,637,012	\$3,687,930	\$3,739,561	\$3,791,915	\$3,845,002
Lease 2096 Rent (FY 98: \$2.06 / USF / Mo.)	\$29,483,108	\$993,110	\$1,007,014	\$1,021,112	\$1,035,407	\$1,049,903	\$1,064,602
Lease 2012 Rent (FY 98: \$1.55 / USF)	\$34,866,743	\$993,190	\$1,197,302	\$1,214,064	\$1,231,061	\$1,248,296	\$1,265,772
Rent for "other leases" (FY 98: \$1.50/USF)	\$11,958,305	\$402,804	\$408,443	\$414,161	\$419,960	\$425,339	\$431,801
<b>Total Cost</b>	<b>\$182,792,855</b>	<b>\$5,977,021</b>	<b>\$6,249,771</b>	<b>\$6,337,268</b>	<b>\$6,425,990</b>	<b>\$6,515,953</b>	<b>\$6,607,177</b>
<b>PURCHASE BOA BUILDING:</b>							
Continued Lease 2011 Rent Expense	\$9,373,452	\$3,587,917	\$3,637,012	\$2,148,523	\$0	\$0	\$0
Continued Lease 2096 Rent Expense	\$3,193,549	\$993,110	\$1,007,014	\$1,021,112	\$172,313	\$0	\$0
Continued Lease 2012 Rent Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Continued "other lease" Rent Expense	\$2,836,133	\$402,804	\$408,443	\$414,161	\$419,960	\$304,755	\$309,022
Rent Collected From Non-State Tenants	(\$20,169,639)	(\$3,829,231)	(\$3,596,157)	(\$944,804)	(\$437,736)	(\$719,750)	(\$740,345)
Operating Expenses	\$72,255,651	\$1,735,000	\$1,804,400	\$1,876,576	\$1,951,639	\$2,029,705	\$2,110,893
Debt Service	\$62,317,820	\$0	\$0	\$1,462,192	\$2,924,384	\$3,860,102	\$3,863,662
Equity buildup	(\$38,935,000)	\$0	\$0	\$0	\$0	(\$1,820,000)	(\$1,900,000)
	\$0						
<b>Total Cost</b>	<b>\$90,871,966</b>	<b>\$2,889,600</b>	<b>\$3,260,712</b>	<b>\$5,977,760</b>	<b>\$5,030,560</b>	<b>\$3,654,812</b>	<b>\$3,643,232</b>
<b>PROJECTED SAVINGS</b>	<b>\$91,920,889</b>	<b>\$3,087,421</b>	<b>\$2,989,059</b>	<b>\$359,508</b>	<b>\$1,395,430</b>	<b>\$2,861,142</b>	<b>\$2,963,945</b>
<b>SUMMARY:</b>							
<b>NPV Savings with Financing</b>	<b>\$44,168,485</b>						

Savings Summary

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
\$3,893,832	\$3,953,416	\$4,008,763	\$4,064,886	\$4,121,795	\$4,179,500	\$4,238,013	\$4,297,345	\$4,357,508	\$4,418,513
\$1,079,506	\$1,094,619	\$1,109,944	\$1,125,483	\$1,141,240	\$1,157,217	\$1,173,418	\$1,189,846	\$1,206,504	\$1,223,395
\$1,283,493	\$1,301,462	\$1,319,682	\$1,338,158	\$1,356,892	\$1,375,889	\$1,395,151	\$1,414,683	\$1,434,489	\$1,454,572
\$437,846	\$443,976	\$450,192	\$456,494	\$462,885	\$469,366	\$475,937	\$482,600	\$489,356	\$496,207
\$6,699,677	\$6,793,473	\$6,888,581	\$6,985,022	\$7,082,812	\$7,181,971	\$7,282,519	\$7,384,474	\$7,487,857	\$7,592,687
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$313,348	\$130,903	\$132,736	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$761,764)	(\$504,135)	(\$491,417)	(\$373,172)	(\$388,099)	(\$403,623)	(\$419,767)	(\$436,558)	(\$454,021)	(\$472,181)
\$2,195,328	\$2,283,142	\$2,374,467	\$2,469,446	\$2,568,224	\$2,670,953	\$2,777,791	\$2,888,903	\$3,004,459	\$3,124,637
\$3,860,062	\$3,859,972	\$3,862,682	\$3,862,437	\$3,863,687	\$3,861,797	\$3,861,277	\$3,861,357	\$3,861,237	\$3,860,087
(\$1,980,000)	(\$2,070,000)	(\$2,170,000)	(\$2,275,000)	(\$2,390,000)	(\$2,510,000)	(\$2,640,000)	(\$2,780,000)	(\$2,930,000)	(\$3,090,000)
\$3,626,974	\$3,699,882	\$3,708,468	\$3,683,711	\$3,653,812	\$3,619,127	\$3,579,300	\$3,533,701	\$3,481,675	\$3,422,543
\$3,072,703	\$3,093,591	\$3,180,113	\$3,301,310	\$3,429,000	\$3,562,844	\$3,703,218	\$3,850,773	\$4,006,182	\$4,170,144

Savings Summary

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
\$4,480,372	\$4,543,097	\$4,606,701	\$4,671,194	\$4,736,591	\$4,802,903	\$4,870,144	\$4,938,326	\$5,007,463
\$1,240,523	\$1,257,890	\$1,275,500	\$1,293,357	\$1,311,464	\$1,329,825	\$1,348,443	\$1,367,321	\$1,386,463
\$1,474,936	\$1,495,585	\$1,516,523	\$1,537,754	\$1,559,283	\$1,581,113	\$1,603,248	\$1,625,694	\$1,648,453
\$503,154	\$510,198	\$517,341	\$524,584	\$531,928	\$539,375	\$546,926	\$554,503	\$562,347
\$7,698,984	\$7,806,770	\$7,916,065	\$8,026,890	\$8,139,266	\$8,253,216	\$8,368,761	\$8,485,924	\$8,604,727
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
(\$491,069)	(\$510,711)	(\$531,140)	(\$552,385)	(\$574,481)	(\$597,460)	(\$621,358)	(\$646,213)	(\$672,061)
\$3,249,622	\$3,379,607	\$3,514,792	\$3,655,383	\$3,801,599	\$3,953,663	\$4,111,809	\$4,276,281	\$4,447,333
\$3,862,047	\$3,865,942	\$3,864,896	\$0	\$0	\$0	\$0	\$0	\$0
(\$3,265,000)	(\$3,455,000)	(\$3,660,000)	\$0	\$0	\$0	\$0	\$0	\$0
\$3,355,601	\$3,279,838	\$3,188,548	\$3,102,998	\$3,227,118	\$3,356,203	\$3,490,451	\$3,630,069	\$3,775,271
\$4,343,383	\$4,526,932	\$4,727,517	\$4,923,892	\$4,912,148	\$4,897,013	\$4,878,310	\$4,855,855	\$4,829,455

## Review of the Department of Administration's Analysis of a Lease or Buy Decision

	<b>Total Cost FY 1998-2016</b>	<b>Net Present Value</b>
Continue Existing Leases	<u>\$124,949,856</u>	<u>\$74,742,001</u>
Continue Leasing with Deconsolidation Move	<u>\$124,257,887</u>	<u>\$74,140,326</u>
Buy Subject Building	<u>\$118,614,850</u>	<u>\$68,181,349</u>

The summary numbers above represent the compilation of nineteen years of projected activity from both a leasing perspective and under a scenario that contemplates the purchase of an office building. There are a multitude of assumptions proposed by the Department of Administration that significantly impact the "bottom lines" shown above. The Division of Legislative Audit reviewed the assumptions used by the department and for those where we agreed, we used the same assumption. For those assumptions with which we could not agree, we modified the assumption to what we believe to be a conservative approach.

However, many assumptions are speculation or "best guesses" which we were unable to verify or to develop a reasonable basis for changing the assumptions. In those instances we have used the department's assumptions but have added descriptions or cautions to the accompanying narrative for the reader.

The following pages provide the detail behind the total numbers presented above.

## Condensed Analysis of Continued Leasing vs. Buying the Subject Building

Description	Sq. Feet	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
<i>Continue Existing Leases (See page 4)</i>										
Total Frontier Lease #2011	135,922	3,559,399	3,608,942	3,658,484	3,708,027	3,757,570	3,807,112	3,856,655	3,906,197	3,955,740
Total Frontier Lease #2096	40,231	990,938	1,004,652	1,018,365	1,032,078	1,045,791	1,059,504	1,073,217	1,086,930	1,100,644
Total Revenue Lease #2012 in subject bldg.	53,280	993,190	994,349	995,507	996,666	997,825	998,983	1,000,142	1,001,301	1,002,460
Other leases for equal sq. ft. comparison	22,353	402,354	407,987	413,620	419,253	424,886	430,519	436,152	441,785	447,418
<b>Total Costs of Continuing Existing Leases</b>	<b>251,786</b>	<b>5,945,881</b>	<b>6,015,929</b>	<b>6,085,976</b>	<b>6,156,024</b>	<b>6,226,071</b>	<b>6,296,119</b>	<b>6,366,166</b>	<b>6,436,213</b>	<b>6,506,261</b>

### *Continue Leasing with Deconsolidation Move to "Class B" Space (See page 6)*

Frontier Lease #2011 to expiration	3,559,399	3,608,942	2,122,074	0	0	0	0	0	0	0
Frontier Lease #2096 to expiration plus 2 year option	990,938	1,004,652	1,018,365	170,108	0	0	0	0	0	0
Total cost of Frontier leases to expiration	4,550,338	4,613,593	3,140,439	170,108	0	0	0	0	0	0
Other State leased space to be moved	1,361,394	1,380,454	816,383	0	0	0	0	0	0	0
State "replacement" space at reduced lease cost	0	0	1,370,115	3,862,711	4,020,197	4,073,495	4,126,793	4,180,091	4,233,389	0
Total Lease Costs	5,911,732	5,994,047	5,326,936	4,032,819	4,020,197	4,073,495	4,126,793	4,180,091	4,233,389	0
Deconsolidate one time expenses	0	0	5,514,891	0	0	0	0	0	0	0
DNR "ongoing deconsolidate" expense	0	0	440,331	457,944	476,262	495,313	515,125	535,730	557,159	0
<b>Total Costs of Deconsolidating Existing Leases</b>	<b>5,911,732</b>	<b>5,994,047</b>	<b>11,282,158</b>	<b>4,490,763</b>	<b>4,496,459</b>	<b>4,568,808</b>	<b>4,641,918</b>	<b>4,715,821</b>	<b>4,790,548</b>	<b>0</b>

### *Buy Building (See page 14)*

Total Frontier Lease #2011	135,922	3,559,399	3,608,942	2,122,074	0	0	0	0	0	0
Total Frontier Lease #2096	40,231	990,938	1,004,652	1,018,365	170,108	0	0	0	0	0
Total Revenue Lease #2012 in subject bldg.	53,280	0	0	0	0	0	0	0	0	0
Other leases for equal sq. ft. comparison	22,353	402,354	407,987	413,620	419,253	424,886	430,519	436,152	441,785	447,418
<b>Total</b>	<b>251,786</b>	<b>4,952,692</b>	<b>5,021,580</b>	<b>3,554,059</b>	<b>589,361</b>	<b>424,886</b>	<b>430,519</b>	<b>436,152</b>	<b>441,785</b>	<b>447,418</b>
Rental income from non-state tenants.		(3,799,468)	(3,543,718)	(988,724)	(501,952)	(434,395)	(421,356)	(430,116)	(159,120)	(132,600)
Building operating expenses		1,540,000	1,601,600	1,665,664	1,732,291	1,801,582	1,873,645	1,948,591	2,026,535	2,107,596
Debt service expenses		0	0	1,462,192	2,924,384	3,860,102	3,863,662	3,860,062	3,859,972	3,862,602
Reserve for Renewal/Replacement		0	0	0	313,060	320,887	328,909	337,131	345,560	354,199
		2,693,224	3,079,462	5,693,191	5,057,144	5,973,062	6,075,379	6,151,820	6,514,731	6,639,295

## Condensed Analysis of Continued Leasing vs. Buying the Subject Building

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Non-Add FY 2017	Total FY 1998-2016	Net Present Value
4,005,283	4,054,825	4,104,368	4,153,910	4,203,453	4,252,995	4,302,538	4,352,081	4,401,623	4,451,166	4,500,708	76,100,368	
1,114,357	1,128,070	1,141,783	1,155,496	1,169,209	1,182,923	1,196,636	1,210,349	1,224,062	1,237,775	1,251,488	21,172,779	
1,003,618	1,004,777	1,005,936	1,007,094	1,008,253	1,009,412	1,010,571	1,011,729	1,012,888	1,014,047	1,015,206	19,068,748	
453,051	458,684	464,317	469,949	475,582	481,215	486,848	492,481	498,114	503,747	509,380	8,607,961	
<b>6,576,308</b>	<b>6,646,356</b>	<b>6,716,403</b>	<b>6,786,450</b>	<b>6,856,498</b>	<b>6,926,545</b>	<b>6,996,593</b>	<b>7,066,640</b>	<b>7,136,688</b>	<b>7,206,735</b>	<b>7,276,782</b>	<b>124,949,856</b>	<b>74,742,001</b>

0	0	0	0	0	0	0	0	0	0	0	9,290,415	
0	0	0	0	0	0	0	0	0	0	0	3,184,063	
0	0	0	0	0	0	0	0	0	0	0	12,474,478	
0	0	0	0	0	0	0	0	0	0	0	3,558,230	
4,286,687	5,710,506	5,790,454	5,870,401	5,950,348	6,030,295	6,110,242	6,190,189	6,270,136	6,350,083	6,430,030	84,426,130	
4,286,687	5,710,506	5,790,454	5,870,401	5,950,348	6,030,295	6,110,242	6,190,189	6,270,136	6,350,083	6,430,030	100,458,838	
0	0	7,849,409	0	0	0	0	0	0	0	0	13,364,300	
579,446	602,623	626,728	651,797	677,869	704,984	733,184	762,511	793,011	824,732	857,721	10,434,749	
<b>4,866,133</b>	<b>6,313,129</b>	<b>14,266,591</b>	<b>6,522,198</b>	<b>6,628,217</b>	<b>6,735,279</b>	<b>6,843,426</b>	<b>6,952,700</b>	<b>7,063,147</b>	<b>7,174,815</b>	<b>7,287,751</b>	<b>124,257,887</b>	<b>74,140,326</b>

0	0	0	0	0	0	0	0	0	0	0	9,290,415	
0	0	0	0	0	0	0	0	0	0	0	3,184,063	
0	0	0	0	0	0	0	0	0	0	0	0	
453,051	0	0	0	0	0	0	0	0	0	0	4,277,023	
453,051	0	0	0	0	0	0	0	0	0	0	16,751,501	
0	0	0	0	0	0	0	0	0	0	0	(10,411,449)	
2,191,900	2,279,576	2,370,759	2,465,590	2,564,213	2,666,782	2,773,453	2,884,391	2,999,767	3,119,757	3,244,548	42,613,693	
3,862,437	3,863,687	3,861,797	3,861,277	3,861,357	3,861,237	3,860,087	3,862,047	3,865,942	3,864,896	0	62,317,820	
363,054	372,130	381,433	390,969	600,518	615,531	630,920	646,693	662,860	679,431	696,417	7,343,285	
<b>6,870,441</b>	<b>6,515,393</b>	<b>6,613,990</b>	<b>6,717,836</b>	<b>7,026,089</b>	<b>7,143,550</b>	<b>7,264,460</b>	<b>7,393,131</b>	<b>7,528,569</b>	<b>7,664,085</b>	<b>3,940,965</b>	<b>118,614,850</b>	<b>68,181,349</b>

## Detail Schedule of Continuing Existing Leases

Lease #	Sq. Feet	Lease Expires	Cost/ Sq. Ft.	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
<b>Total Lease #2011</b>	135,922	1/31/00	2.1696	3,559,399	3,608,942	3,658,484	3,708,027	3,757,570	3,807,112	3,856,655	3,906,197	3,955,740
Frontier #2096ABE	28,044	8/31/98	1.9678	669,946	679,217	688,488	697,759	707,030	716,301	725,572	734,843	744,114
Frontier #2096DF	12,187	8/31/98	2.1696	320,993	325,435	329,877	334,319	338,761	343,203	347,645	352,087	356,529
<b>Total Lease #2096</b>				990,938	1,004,652	1,018,365	1,032,078	1,045,791	1,059,504	1,073,217	1,086,930	1,100,644
<b>Total Lease #2012</b>	53,280	9/30/98	1.5534	993,190	994,349	995,507	996,666	997,825	998,983	1,000,142	1,001,301	1,002,460
<b>Total Other Leases</b>	22,353		1.5000	402,354	407,987	413,620	419,253	424,886	430,519	436,152	441,785	447,418
<b>Total Lease Space</b>	<u>251,786</u>			<u>5,945,881</u>	<u>6,015,929</u>	<u>6,085,976</u>	<u>6,156,024</u>	<u>6,226,071</u>	<u>6,296,119</u>	<u>6,366,166</u>	<u>6,436,213</u>	<u>6,506,261</u>

This schedule presents a hypothetical scenario where the existing leases in the Frontier Building and other State lease space in Anchorage would continue to be leased simply through the extension of the existing lease terms. Each of the leases are adjusted for inflation according to the State's customary inflation adjustment formula: [Base Rent X 35% X 4% added to the prior year's payments].

Frontier Lease #2011 is referred to as the DNR lease as it is primarily made of Department of Natural Resources agencies. The lease is for 135,922 usable square feet at the current rate of \$2.1696. The lease expires on January 31, 2000.

Frontier Lease #2096 is a composite of several executive branch agencies in five subparts. Subparts A, B, and E total 28,044 usable square feet at a rate of \$1.9678. Subparts D and F total 12,187 square feet at a rate of \$2.1696. The current lease expires on August 31, 1998 but has one two-year extension that the State intends to renew.

Lease #2012 is the Department of Revenue lease in the subject property. It consists of 53,280 usable square feet at a rate of \$1.5534. Various agencies of the Department of Revenue occupy the second through the fifth floor of the building. Also included in this lease is 1,572 square feet on the thirteenth floor of the building occupied by the Alaska Municipal Bond Bank Authority.

The "Other Leases" line of this schedule is the amount of other state leased space in Anchorage that would possibly be relocated to the subject property if the State made the purchase. This space is included to make the square footage comparisons equal between continuing leasing and the space available in the subject property.

**Caution: This scenario is extremely simplistic and is only presented for a basic picture of what would happen if the State did nothing but continue to extend the existing terms of the current leases. This is not realistic. The Department of Administration has not presented information of the potential costs of renegotiating a long term lease in currently occupied facilities.**

## Detail Schedule of Continuing Existing Leases

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Non-Add FY 2017	TOTAL FY 98-16
4,005,283	4,054,825	4,104,368	4,153,910	4,203,453	4,252,995	4,302,538	4,352,081	4,401,623	4,451,166	4,500,708	76,100,368
753,385	762,656	771,928	781,199	790,470	799,741	809,012	818,283	827,554	836,825	846,096	14,314,322
360,971	365,413	369,856	374,298	378,740	383,182	387,624	392,066	396,508	400,950	405,392	6,858,456
<u>1,114,357</u>	<u>1,128,070</u>	<u>1,141,783</u>	<u>1,155,496</u>	<u>1,169,209</u>	<u>1,182,923</u>	<u>1,196,636</u>	<u>1,210,349</u>	<u>1,224,062</u>	<u>1,237,775</u>	<u>1,251,488</u>	<u>21,172,779</u>
1,003,618	1,004,777	1,005,936	1,007,094	1,008,253	1,009,412	1,010,571	1,011,729	1,012,888	1,014,047	1,015,206	19,068,748
453,051	458,684	464,317	469,949	475,582	481,215	486,848	492,481	498,114	503,747	509,380	8,607,961
<u>6,576,308</u>	<u>6,646,356</u>	<u>6,716,403</u>	<u>6,786,450</u>	<u>6,856,498</u>	<u>6,926,545</u>	<u>6,996,593</u>	<u>7,066,640</u>	<u>7,136,688</u>	<u>7,206,735</u>	<u>7,276,782</u>	<u>124,949,856</u>
										NPV	<u>74,742,001</u>

The FY 2017 column is presented as a non-add column throughout our analysis. It is presented to show, in certain buy scenarios, the difference between the FY 2017 costs and the previous years which all have debt service costs in them. The total column is the amount over the life of the proposed financing of the building acquisition.

The net present value (NPV) amount enables a comparison of the various scenarios in terms of today's dollars.

## Detail Schedule of Continued Leasing with Deconsolidation Move

Description	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Frontier Lease #2011 to expiration <i>(See page 8)</i>	3,559,399	3,608,942	2,122,074	0	0	0	0	0	0
Frontier Lease #2096 to expiration plus plus exercising a two year option <i>(See page 9)</i>	990,938	1,004,652	1,018,365	170,108	0	0	0	0	0
Total cost of Frontier leases to expiration	4,550,338	4,613,593	3,140,439	170,108	0	0	0	0	0
Other State leased space to be moved <i>(See page 10)</i>	1,361,394	1,380,454	816,383						
"Replacement" space at reduced cost <i>(See page 11)</i>	0	0	1,370,115	3,862,711	4,020,197	4,073,495	4,126,793	4,180,091	4,233,389
Total Lease Costs	5,911,732	5,994,047	5,326,936	4,032,819	4,020,197	4,073,495	4,126,793	4,180,091	4,233,389
Deconsolidate one time expenses <i>(See page 12)</i>	0	0	5,514,891	0	0	0	0	0	0
DNR "ongoing deconsolidate" expense <i>(See page 13)</i>	0	0	440,331	457,944	476,262	495,313	515,125	535,730	557,159
<b>Total Costs of Deconsolidating Existing Leases</b>	<b>5,911,732</b>	<b>5,994,047</b>	<b>11,282,158</b>	<b>4,490,763</b>	<b>4,496,459</b>	<b>4,568,808</b>	<b>4,641,918</b>	<b>4,715,821</b>	<b>4,790,548</b>
<b>Total Costs of Continuing Existing Leases</b>	<b>5,945,881</b>	<b>6,015,929</b>	<b>6,085,976</b>	<b>6,156,024</b>	<b>6,226,071</b>	<b>6,296,119</b>	<b>6,366,166</b>	<b>6,436,213</b>	<b>6,506,261</b>

The scenario depicted on this schedule reflects the Department of Administration's intention to reduce the cost of leasing through what is termed a "deconsolidation" of space currently occupied in the Frontier Building. As opposed to the previous continue leasing scenario, and in the absence of a dramatic change to the department's approach to long-term leasing, this scenario is perhaps the most realistic as to future costs. It envisions a rebidding of space needs every nine years with an accompanying move to new space.

The various lines in this schedule are referenced to subsequent pages so that you can see a more detailed discussion of each line item. We were unable to reach a conclusion as to the reasonableness of the one-time items (move related costs) and the ongoing expenses envisioned by the Department of Natural Resources resulting from deconsolidating from one central location to perhaps three different locations. These costs are further discussed and detailed on pages 12 and 13.

For comparison purposes, we have shown the total cost of continuing existing leases from pages 4 and 5. As you can see the total cost of deconsolidation and moving to new space every nine years actually differs very little from the continue leasing scenario. While the deconsolidation would result in lower lease rates, the added cost of moving and the unidentified cost of disruption of service to accomplish a move offset any lease savings.

## Detail Schedule of Continued Leasing with Deconsolidation Move

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Non-Add FY 2017	Total FY 1998-2016
0	0	0	0	0	0	0	0	0	0	0	9,290,415
0	0	0	0	0	0	0	0	0	0	0	3,184,063
0	0	0	0	0	0	0	0	0	0	0	12,474,478
											3,558,230
4,286,687	5,710,506	5,790,454	5,870,401	5,950,348	6,030,295	6,110,242	6,190,189	6,270,136	6,350,083	6,430,030	84,426,130
4,286,687	5,710,506	5,790,454	5,870,401	5,950,348	6,030,295	6,110,242	6,190,189	6,270,136	6,350,083	6,430,030	100,458,838
0	0	7,849,409	0	0	0	0	0	0	0	0	13,364,300
579,446	602,623	626,728	651,797	677,869	704,984	733,184	762,511	793,011	824,732	857,721	10,434,749
4,866,133	6,313,129	14,266,591	6,522,198	6,628,217	6,735,279	6,843,426	6,952,700	7,063,147	7,174,815	7,287,751	124,257,887
											NPV 74,140,326
6,576,308	6,646,356	6,716,403	6,786,450	6,856,498	6,926,545	6,996,593	7,066,640	7,136,688	7,206,735	7,276,782	124,949,856
											NPV 74,742,001

## Frontier Lease #2011 to Expiration

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total Fiscal Year 2005-2016	Non-Add FY 2017	Total Fiscal Year 1998-2016
Frontier Lease #2011	3,559,399	3,608,942	2,122,074	-	-	-	-	-	-	9,290,415

Lease 2011 at the Frontier Building consists of 135,922 square feet which houses the Departments of Natural Resources, Commerce and Economic Development, Administration, Health and Social Services, Revenue and the Office of the Governor. The largest lease holder is the Department of Natural Resources which occupies 101,685 square feet. Lease 2011 expires on January 31, 2000 and there are no renewal options remaining.

According to Department of Administration records the current cost under lease 2011 is \$2.1696 (base) per square foot. The lease rate is adjusted annually for 35% of the base rate, capped at a 4% CPI. Our analysis of the lease costs above included the CPI adjustment factor which is calculated as follows:

(Base per square foot cost x 35%) x 4% plus prior year square foot cost = adjusted per square foot cost

Our calculation of fiscal year lease costs for lease 2011 took into consideration the fact that the lease rate adjustment does not take effect until February 1. Based on that, we calculated lease costs for lease 2011 by applying the "base" rate to the first seven months of the fiscal year (July - January) and then applying the new adjusted rate to the remainder of the fiscal year (February - June).

Both fiscal years 1998 and 1999 represent lease costs for the full fiscal year. Lease costs reported in fiscal year 2000 represent lease costs for only the first seven months of that fiscal year as the lease expires January 31, 2000 and under the deconsolidated scenario the space will be vacated.

## Frontier Lease #2096 to Expiration plus Exercising a Two-Year Option

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Total Fiscal Year 2004-2016	Non-Add FY 2017	Total Fiscal Year 1998-2016
Frontier Lease #2096	990,938	1,004,652	1,018,365	170,108	-	-	-	-	3,184,063

Lease 2096 at the Frontier Building consists of 40,231 square feet which houses the Departments of Administration (DOA), Health and Social Services and the Office of the Governor. Lease 2096 expires on August 31, 1998 with one two-year renewal option remaining. It is the intention of DOA to exercise that renewal option, extending the lease through August 31, 2000.

According to DOA the current cost of lease 2096 consists of two different per square foot rates. The Departments of Health and Social Services, Administration and the Office of the Governor has a per square foot rate of \$1.9678. The Department of Health and Social Services also has leased space at the rate of \$2.1696 (base) per square foot. The lease rate is adjusted annually for 35% of the base rate, capped at a 4% CPI. Our analysis of the lease costs above included the CPI adjustment factor which is calculated as follows:

$$(\text{Base per square foot cost} \times 35\%) \times 4\% \text{ plus prior year per square foot cost} = \text{adjusted per square foot cost.}$$

Our calculation of fiscal year lease costs for lease 2096 took into consideration that the date of the lease rate adjustment is effective on September 1, thereby creating two rates: the lease rate for the months of July and August, and the CPI adjusted rate for the remainder of the fiscal year.

## Other State Leased Space to be Moved

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total Fiscal Year 2005-2016	Non-Add FY 2017	Total Fiscal Year 1998-2016
Other State leased space	1,361,394	1,380,454	816,383	0	0	0	0	0	0	3,558,230

Other State leased space represents a concept rather than identifiable, currently occupied leased space.

According to the Department of Administration (DOA), the Bank of America building has 251,786 usable square feet. The Frontier building leases No. 2011 and 2096 comprise 176,153 square feet, a difference of 75,633 square feet. In their presentation under the Deconsolidate Scenario, DOA has tried to keep an "apples to apples" comparison when comparing purchasing and occupying 251,786 square feet at the Bank of America building versus soliciting and leasing 251,786 square feet of office space elsewhere in the Anchorage market.

After calculating the cost of the actually occupied 176,153 square feet at the Frontier building, and to maintain the "apples to apples" comparison, it is necessary to calculate the cost of the difference (75,633 square feet) under the assumption that if the Bank of America building is not purchased and its capacity of 251,786 square feet is not utilized, then a similar amount of leased space will be required elsewhere.

DOA has estimated that within the Anchorage market it could obtain satisfactory lease space (with the landlord responsible for build-outs) at a cost of \$1.50 per square foot. This additional space (to balance Bank of America available space with currently occupied Frontier building and "other" space) would cost \$1,361,394 in FY 98 (75,633 square feet @ \$1.50/sf). FY 99 cost of the "other" space is estimated at \$1,380,454 (adjusted for CPI allowances).

The FY 2000 cost of \$816,383 for "other" space was calculated by adjusting the rate for the CPI allowance and assuming this "other" space would be required for only seven months (through January 31, 2000) to coincide with the expiration of lease 2011 at the Frontier building.

## Replacement Space at Reduced Cost

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	Total Fiscal Year 2005-2016	Non-Add FY 2017	Total Fiscal Year 1998-2016
State "replacement" space	0	0	1,370,115	3,862,711	4,020,197	4,073,495	4,126,793	66,972,820	6,430,030	84,426,130

"State Replacement Space" represents the cost of all space requirements after expiration of the current Frontier building leases and the Department of Natural Resources is deconsolidated and other agencies in the Frontier building are moved to other space. It also represents the cost of the existing leased space in the Bank of America building that would presumably be moved also under this scenario.

As discussed in greater detail under the "Line 10" analysis, the Department of Administration (DOA) in its "replacement" space analysis has estimated that it would require 251,786 square feet of space on the Anchorage market should the Bank of America building not be purchased. DOA has assumed FY 1998 rate of \$1.26 per square foot. At this assumed rate, the state as tenant would be responsible for all build-outs and leasehold improvements.

The FY 2000 costs represent the cost of 211,555 square feet (251,786 square foot requirement less Frontier lease 2096 which expires August 31, 2000) at the FY 2000 CPI adjusted per square foot rate of \$1.295, for five months (which relates to the January 31, 2000 expiration of DNR lease 2011 at the Frontier building).

The FY 2001 costs represent the FY 2001 CPI adjusted per square foot rate of \$1.313 for twelve months of all space requirements except for lease 2096, which represents that space for ten months, to coincide with the expiration of lease 2096 on August 31, 2000.

FY 2002-2007 costs represent annually CPI adjusted rates for all 251,786 square feet.

FY 2008-2017 costs represent a per square foot increase of 50% of the 1998 base rate to reflect assumed market conditions of a tighter market for available space. DOA assumes the 1998 rate of \$1.26 per square foot represents a "soft" or "renters" market and that market conditions will increase lease rates over time. In FY 2008, the base rate is assumed to be \$1.89 per square foot (FY 1998 rate X 150%). FY 2009-2017 rates are the FY 2008 base rate, adjusted for CPI increases.

## Deconsolidate One-Time Expenses

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	Total Fiscal Year 2003-2008	FY 2009	Total Fiscal Year 2010-2016	Non-Add FY 2017	Total Fiscal Year 1998-2016
Deconsolidate one time expenses	0	0	5,514,891	0	0	0	7,849,410	0	0	13,364,301

"Deconsolidate one time expenses" represent the Department of Administration (DOA) estimated costs of deconsolidating the Department of Natural Resources (DNR) and other offices currently consolidated at the Frontier building and then once again moving those offices ten years later under the assumption that competitive bidding at the end of a lease term would result in a new location.

Under the Deconsolidate Scenario, currently occupied space at the Frontier building would be deconsolidated and housed in three different locations within the Anchorage area. This is based upon the assumption that other than the Frontier building (or purchasing or constructing a building) there is no comparable space on the Anchorage market that would permit the housing of a consolidated DNR, which currently occupies 135,922 square feet at the Frontier building.

DOA estimates "one time" costs occurring in FY 2000 and FY 2009 under the Deconsolidate Scenario. These costs were determined by a combination of updating FY 94 costs (and adjusted for an assumed annual 4% CPI rate) identified by DNR and DOA under a "move plan" under consideration at that time as well as current undocumented estimates for moving Department of Health and Social Services offices from the Frontier building. These "one time" costs include the cost for new systems furniture, telephone and computer connectivity for the three DNR locations and the establishment of multiple DNR public information center offices, as well as unverified costs DOA estimates it will incur.

The basis of these costs have not been verified.

Cost Description	FY 2000	FY 2009
<b>DNR:</b>		
Systems Furniture	316,330	450,236
Telephone Connectivity	379,596	540,283
Computer Network	678,211	965,306
Radio's	63,266	90,047
Multiple PIC Offices	75,919	108,057
subtotal DNR	<u>1,513,322</u>	<u>2,153,929</u>
<b>DOA:</b>		
"Move related"	354,289	504,264
Planning	94,899	135,071
Project Administration	55,674	79,242
Telephones	885,723	1,260,660
Computer Cabling	474,495	675,354
Contingency	97,430	138,673
subtotal DOA	<u>1,962,510</u>	<u>2,793,264</u>
<b>HSS - estimated, no breakout</b>	<u>1,040,000</u>	<u>1,480,244</u>
<b>"Other agencies":</b>		
Cost to move "other agencies" from Frontier Building	285,445	406,278
Telephone for "other agencies"	713,614	1,015,695
subtotal "other agencies"	<u>999,059</u>	<u>1,421,973</u>
<b>Total One Time Costs</b>	<u><u>5,514,891</u></u>	<u><u>7,849,410</u></u>

## DNR Ongoing Deconsolidation Expenses

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Total Fiscal Year 2004-2016	Non-Add FY 2017	Total Fiscal Year 1998-2016
DNR "ongoing deconsolidate" expense	-	-	440,332	457,944	476,262	495,313	8,564,899	857,721	10,434,750

Under the Department of Natural Resources (DNR) Deconsolidated Scenario, three separate offices would replace the consolidated DNR office currently at the Frontier building. These Department of Administration estimated costs are those associated with separate offices such as for courier and mail distribution, recurring charges for computer and telephone connectivity, and recurring charges for multiple public information centers. These costs were determined by updating FY 94 costs (and adjusted for an assumed annual 4% CPI rate) identified by DNR and DOA under "move plan" under consideration at that time.

The basis of these costs have not been verified.

<u>Cost Description</u>	<u>FY 2000</u>
Mail courier services	50,613
Computer support	253,064
Public Information Centers	126,532
Courier/vehicles - Parks	10,123
Total "On Going Costs"	440,332

## Buy Subject Property with Financing

Description	Sq. Feet	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total Frontier Lease #2011	135,922	3,559,399	3,608,942	2,122,074	0	0	0	0	0	0
Total Frontier Lease #2096	40,231	990,938	1,004,652	1,018,365	170,108	0	0	0	0	0
Total Revenue Lease #2012 in subject bldg.	53,280	0	0	0	0	0	0	0	0	0
Other leases for equal sq. ft. comparison	22,353	402,354	407,987	413,620	419,253	424,886	430,519	436,152	441,785	447,418
<b>Total</b>	<b>251,786</b>	<b>4,952,692</b>	<b>5,021,580</b>	<b>3,554,059</b>	<b>589,361</b>	<b>424,886</b>	<b>430,519</b>	<b>436,152</b>	<b>441,785</b>	<b>447,418</b>
Rental income from non-state tenants		(3,799,468)	(3,543,718)	(988,724)	(501,952)	(434,395)	(421,356)	(430,116)	(159,120)	(132,600)
Building operating expenses (See Page 17)		1,540,000	1,601,600	1,665,664	1,732,291	1,801,582	1,873,645	1,948,591	2,026,535	2,107,596
Debt service expenses (See Page 18)		0	0	1,462,192	2,924,384	3,860,102	3,863,662	3,860,062	3,859,972	3,862,682
Reserve for renewal/replacement		0	0	0	313,060	320,887	328,909	337,131	345,560	354,199
<b>Total Cost to Buy Subject Property with Financing</b>		<b>2,693,224</b>	<b>3,079,462</b>	<b>5,693,191</b>	<b>5,057,144</b>	<b>5,973,062</b>	<b>6,075,379</b>	<b>6,151,620</b>	<b>6,314,731</b>	<b>6,639,295</b>
<b>Non-Add other items for consideration:</b>										
Cost difference between taxable and tax exempt		0	0	1,462,192	2,924,384	211,740	203,717	204,570	198,929	191,906
Municipal Tax Exemption (local impact)(Inflated at 1%)		495,289	500,242	505,244	510,297	515,400	520,554	525,759	531,017	536,327

This schedule shows the cost of buying the subject property. The Frontier leases are shown as being terminated at their expiration, so there are lease costs until a move out of the Frontier building. The Department of Revenue leased space in the building becomes "rent free" once the State owns the building. The "other leased space" line reflects an assumption that it may take as many as ten years to fully utilize the remaining available space in the building after the Frontier leases move in.

The rental income from non-state tenants declines over the years as current leases expire or are bought out. The detail of these leases are proprietary and cannot be disclosed. However, the scenario presented by the Department of Administration should be considered a "best case scenario." It assumes that no existing tenants will exercise available exclusive options to renew their lease. Some leases have multiple extension terms. This assumption is the critical factor in the department's buy scenario. The timeline of expiring leases in the Frontier building and the need for comparable available space in the subject property dramatically impacts this scenario. If space is not available in the new building to accommodate DNR on January 31, 2000, other lease space would be required. This would be offset in part, however, by the revenue from tenants in the new building. See page 16 for a graphic depiction of the availability of space, in the best case and worst case scenario, in comparison to need. (Discussion continues on the next page.)

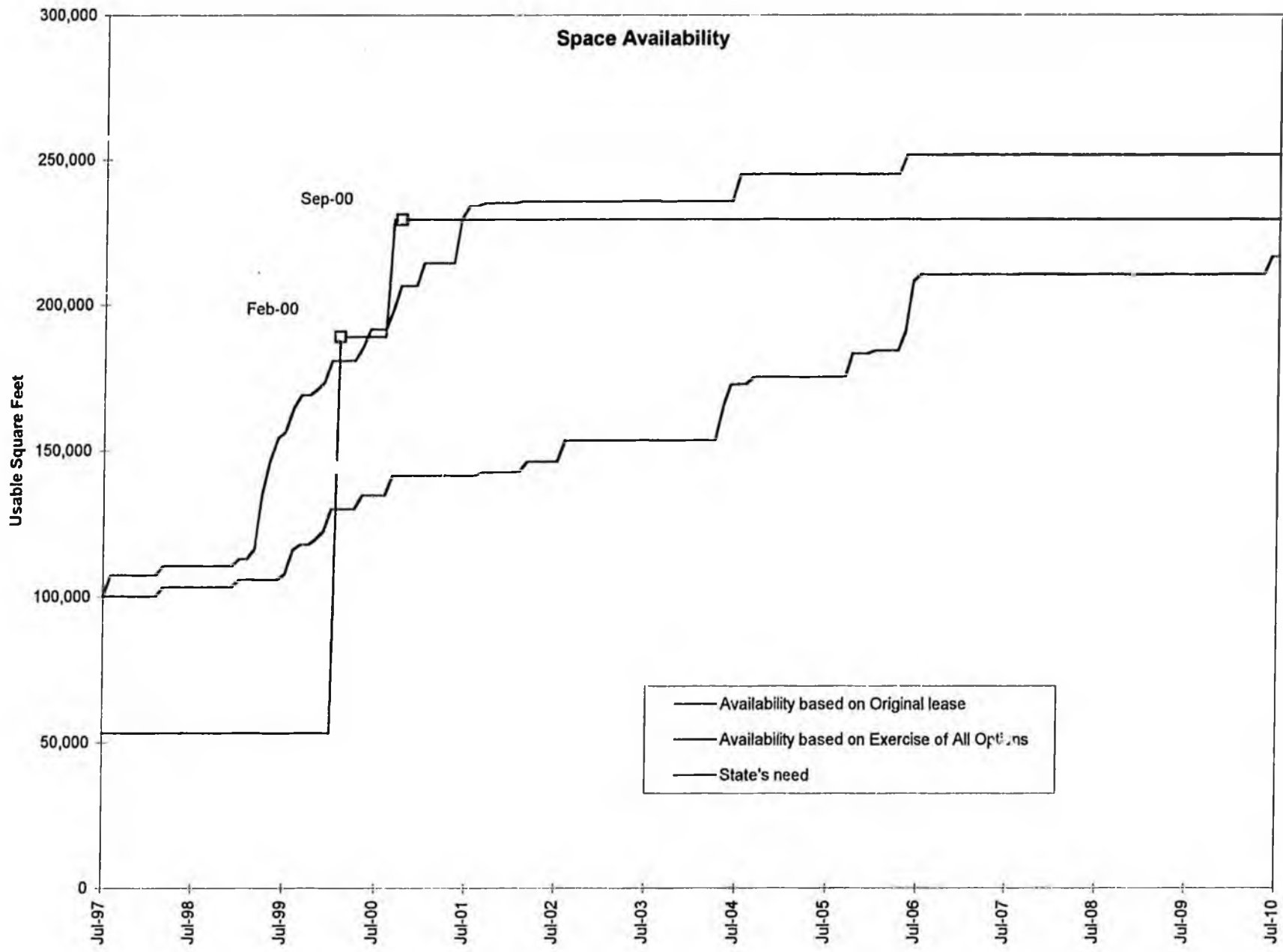
## Buy Subject Property with Financing

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Non-Add FY 2017	TOTAL FY 1998-2016
0	0	0	0	0	0	0	0	0	0	0	0	9,290,415
0	0	0	0	0	0	0	0	0	0	0	0	3,184,063
0	0	0	0	0	0	0	0	0	0	0	0	0
453,051	0	0	0	0	0	0	0	0	0	0	0	4,277,023
453,051	0	0	0	0	0	0	0	0	0	0	0	16,751,501
0	0	0	0	0	0	0	0	0	0	0	0	(10,411,449)
2,191,900	2,279,576	2,370,759	2,465,590	2,564,213	2,666,782	2,773,453	2,884,391	2,999,767	3,119,757	3,244,548	3,244,548	42,613,693
3,862,437	3,863,687	3,861,797	3,861,277	3,861,357	3,861,237	3,860,087	3,862,047	3,865,942	3,864,896	0	0	62,317,820
363,054	372,130	381,433	390,969	600,518	615,531	630,920	646,693	662,860	679,431	696,417	696,417	7,343,285
6,870,441	6,515,393	6,613,990	6,717,836	7,026,089	7,143,550	7,264,460	7,393,131	7,528,569	7,664,085	3,940,965	3,940,965	118,614,850
											NPV	68,181,349
188,483	183,433	176,113	171,593	164,693	160,263	151,866	144,118	133,073	124,452	7,948,271	7,948,271	14,943,796
											See Note 1	
541,690	547,107	552,578	558,104	563,685	569,322	575,015	580,765	586,573	592,439	598,363	598,363	10,905,767

The "Reserve for renewal/replacement" line reflects an annual recognition of capital needs in the future for major improvements and repairs. While it is uncertain at this point whether a separate fund will be established to actually accumulate these reserves, it is a legitimate cost element to consider in the operation of the facility. Therefore we included it in our analysis. It assumes \$175/ gross square foot replacement cost inflated at 2.5% a year. The annual reserve is calculated at .5% for the first ten years and .75% for the next ten years.

The other "non-add items of cost difference between taxable and tax-exempt financing, and the tax avoidance are presented for informational purposes only. To utilize tax exempt financing, as a general rule, the State must occupy 90% of the building. The Department of Administrations assumption is to convert to tax exempt financing in FY 02.

*Note 1:* The amount shown in FY 2017 for the cost difference between taxable and tax-exempt financing represents two years of debt service for taxable financing. According to the Department of Revenue, the tax exempt debt is extinguished in FY 2016, however, taxable financing is not extinguished until FY 2018.



## Building Operating Expenses

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Total Fiscal Year 2004-2016	Fiscal Year 2017 Non-Add	Total Fiscal Year 1998-2016
Building Operating Expenses	1,540,000	1,601,600	1,665,664	1,732,291	1,801,582	1,873,645	32,398,911	3,244,548	42,613,693

Bank of America building operating expenses have been estimated by estimated by the appraiser. Estimates are based upon historical operating costs, adjusted for certain expense modifications unique to state ownership such as insurance and property taxes. Estimated 1998 expenses have been adjusted annually assuming a 4% CPI adjustment.

FY 98 expenses are detailed below.

Insurance	10,000
Building Management	150,000
Janitorial	276,000
Windows	22,000
Electric	435,000
Gas	55,000
Water/Sewer/Refuse	43,000
Landscaping	24,000
Maintenace/Reserves	430,000
Security	90,000
Miscellaneous	5,000
	1,540,000

## Debt Service Expenses

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	Total Fiscal Year 2004-2016	Fiscal Year 2017 Non-Add	Total Fiscal Year 1998-2016
Debt Service Expenses	-	-	1,462,192	2,924,384	3,860,102	3,863,662	50,207,480	-	62,317,820

Debt Service Expenses represent the cost of principal and interest to repay funds borrowed under "Certificates of Participation" (COPs), basically general obligations of the State of Alaska. The Department of Administration and Department of Revenue have devised a plan which calls for two COP issues. The first COPs would be issued as taxable instruments, which would command a higher interest rate. The taxable issue would remain until the state had achieved a 90% occupancy of the subject property, thereby qualifying for the tax exempt financing, which by its nature commands a lower interest rate.

The Department of Revenue's first COP (taxable) issue is projected to be made in September 1997 in the amount of \$38,420,000. The projections include a 20 year term for the debt, with projected interest coupon rates of 7.15%-7.7%. Total projected debt service under this scenario is \$68,902,775. However, once the state has achieved 90% building occupancy and then qualifies for tax exempt financing, the state intends to issue tax exempt refinancing COPs in March 2001 in the amount of \$38,935,000. These tax exempt funds would be used to retire the taxable COPs issued in 1997. The Department of Revenue projects coupon rates in the 4.2%-5.8% range with a term of 15 years and the COPs fully maturing in March 2016. Total projected debt service under this scenario is \$57,931,252.

It is evident that in the event of a delay in the issuance of the tax exempt COPs (mainly due to inability to achieve 90% state occupancy of the building), the taxable issue will run a longer life, with a corresponding higher debt service to the State.

The debt service expenses listed above reflect a combination of debt service for the original taxable issue and debt service for the subsequent tax exempt issue.

### Application of Debt Proceeds:

Purchase of building	25,950,000
Build-outs/tenant improvements	2,850,000
Data/Phone wiring	361,500
Project management	64,000
Move related expenses	175,000
Project contingencies	4,000,000
Cost of issuance	314,760
Capitalized interest	5,484,291
Financing contingencies	3,373
Interest earned on build-out fund	(782,924)
	38,420,000

## Buy Subject Property with Cash

Description	Sq. Feet	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Total Frontier Lease #2011	135,922	3,559,399	3,608,942	2,122,074	0	0	0	0	0	0
Total Frontier Lease #2096	40,231	990,938	1,004,652	1,018,365	170,108	0	0	0	0	0
Total Revenue Lease #2012 in BOA bldg.	53,280	0	0	0	0	0	0	0	0	0
Other leases for equal sq. ft. comparison	22,353	402,354	407,987	413,620	419,253	424,886	430,519	436,152	441,785	447,418
<b>Total</b>	<b>251,786</b>	<b>4,952,692</b>	<b>5,021,580</b>	<b>3,554,059</b>	<b>589,361</b>	<b>424,886</b>	<b>430,519</b>	<b>436,152</b>	<b>441,785</b>	<b>447,418</b>
Rental income from non-state tenants.		(3,799,468)	(3,543,718)	(988,724)	(501,952)	(434,395)	(421,356)	(430,116)	(159,120)	(132,600)
Building operating expenses		1,540,000	1,601,600	1,665,664	1,732,291	1,801,582	1,873,645	1,948,591	2,026,535	2,107,596
Capital Expense		28,450,000	2,500,000	2,500,000	0	0	0	0	0	0
Reserve for Renewal/Replacement		0	0	0	313,060	320,887	328,909	337,131	345,560	354,199
<b>Total Cost to Buy Subject Property with Cash</b>		<b>31,143,224</b>	<b>5,579,462</b>	<b>6,730,999</b>	<b>2,132,760</b>	<b>2,112,960</b>	<b>2,211,717</b>	<b>2,291,758</b>	<b>2,654,759</b>	<b>2,776,613</b>
<b>Total Cost to Buy Subject Property with Financing</b>		<b>2,693,224</b>	<b>3,079,462</b>	<b>5,693,191</b>	<b>5,057,144</b>	<b>5,973,062</b>	<b>6,075,379</b>	<b>6,151,820</b>	<b>6,514,731</b>	<b>6,639,295</b>
<b>Annual Savings from Cash Buy</b>		<b>(28,450,000)</b>	<b>(2,500,000)</b>	<b>(1,037,808)</b>	<b>2,924,384</b>	<b>3,860,102</b>	<b>3,863,662</b>	<b>3,860,062</b>	<b>3,859,972</b>	<b>3,862,682</b>

## Buy Subject Property with Cash

FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Non-Add FY 2017	TOTAL FY 1998-2016
0	0	0	0	0	0	0	0	0	0	0	0	9,290,415
0	0	0	0	0	0	0	0	0	0	0	0	3,184,063
0	0	0	0	0	0	0	0	0	0	0	0	0
453,051	0	0	0	0	0	0	0	0	0	0	0	4,277,023
453,051	0	0	0	0	0	0	0	0	0	0	0	16,751,501
0	0	0	0	0	0	0	0	0	0	0	0	(10,411,449)
2,191,900	2,279,576	2,370,759	2,465,590	2,564,213	2,666,782	2,773,453	2,884,391	2,999,767	3,119,757	3,244,548	3,244,548	42,613,693
0	0	0	0	0	0	0	0	0	0	0	0	33,450,000
363,054	372,130	381,433	390,969	600,518	615,531	630,920	646,693	662,860	679,431	696,417	696,417	7,343,285
3,008,004	2,651,706	2,752,193	2,856,559	3,164,732	3,282,313	3,404,373	3,531,084	3,662,627	3,799,189	3,940,965	3,940,965	89,747,030
												NPV 64,777,371
6,870,441	6,515,393	6,613,990	6,717,836	7,026,089	7,143,550	7,264,460	7,393,131	7,528,569	7,664,085	3,940,965	3,940,965	118,614,850
												NPV 68,181,349
3,862,437	3,863,687	3,861,797	3,861,277	3,861,357	3,861,237	3,860,087	3,862,047	3,865,942	3,864,896	0	0	

**B of A Building  
Private Tenant Property Tax**

1) Property tax is calculated based on the percent of the building area that is occupied by non-government tenants in each fiscal year. Property tax is based on the 1996 actual property tax paid.  
2) Non-government occupancy is based on the assumption that state leases will be moved into the building as current Frontier building leases expire.

1996 Property Tax                   \$ 490,612  
Total BofA Square Feet           251,786

	1998	1999	2000	2001	2002	2003	2004	2005
Sq. Ft. of Private Tenants	135,347	129,442	43,110	13,576	10,973	10,973	10,973	0
% of Total Building Area	54%	51%	17%	5%	4%	4%	4%	0%
Private Tenant Property Tax	\$ 263,727	\$ 252,221	\$ 84,001	\$ 26,453	\$ 21,381	\$ 21,381	\$ 21,381	

# Anchorage Office Building

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prepared by  
Division of Legislative Audit

April 18, 1997

# Primary Concerns

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- ◆ Overly optimistic best case view
- ◆ Cost likely understated
- ◆ Timeline assumes no lease renewals
- ◆ Other financing options not explored
  - AHFC
  - Cash
- ◆ Tax exempt financing requires 90% state occupancy

# Impacts of Ownership

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## Pros:

- ◆ Long term savings in leasing budget
  - Building M&O less than half future estimated lease costs
- ◆ Protection from uncertain leasing market changes
- ◆ Own asset with replacement value of over \$50 million
- ◆ Permanent centralized services

# Impact of Ownership

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## Cons:

- ◆ Property tax avoidance of approx. \$500.0 per year
- ◆ Further strain Class A space shortage in downtown Anchorage
- ◆ State possibly in landlord role for several years

# DOA vs DLA - Purchase

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◆ DOA total cost to Purchase:	\$90,872.0
◆ DOA uses 25 yrs; DLA 19 yrs:	-20,582.1
◆ Equity Buildup is non-cash item:	38,935.0
◆ DLA shows capital renewal cost:	7,343.3
◆ DOA considers parking revenue:	6,527.9
◆ DOA uses higher M&O costs:	-5,395.9
◆ DLA shows higher tenant income:	-433.6
◆ DOA expiring lease costs lower:	1,348.3
◆ DLA total cost to Purchase:	\$118,614.9

# Net Present Value

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- ◆ After adjusting for equity buildup and capital reserve, DLA and DOA present value calculations over the life of the debt service (19 yrs.) show savings range from \$6.3 million to \$11.7 million.
- ◆ DOA's savings NPV over 25 years, after adjustment, is \$20.5 million.

## KINCAID & RIELY

REAL ESTATE APPRAISERS & CONSULTANTS

310 K Street, Suite 402, Anchorage, Alaska 99501-2046

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Fax (907) 274-8403

April 10, 1997

Barry Jackson  
Contracting Manager  
State of Alaska Department of Administration  
Division of General Services  
2400 Viking Drive  
Anchorage, Alaska 99501

RE: Analysis of the State of Alaska purchase of the Bank of America Center located in Anchorage, Alaska, Our File Reference No. 9727.

Dear Mr. Jackson:

This letter represents a summation of my limited research and a presentation and review of Division of General Services (DGS) analysis of the costs and benefits associated with the State of Alaska (State) purchasing and ultimately owner-occupying the Bank of America Center located at 550 West 7<sup>th</sup> Avenue in Anchorage, Alaska. It is my understanding that the State has an option to purchase the Bank of America Center from the current owner for \$25,950,000, with terms of cash to the seller. My research is limited to an inspection of the Bank of America Center, various conversations with managers, owners and leasing agents of competing Anchorage office properties, and a detailed review of the DGS cost benefits analysis of this project. The purposes and extent of my involvement in this project are enumerated below:

1. To provide a succinct summary description of the physical improvements known as the Bank of America Center.
2. To review and summarize the DGS analysis on the cost benefits of purchasing this property and present this information in an easily understood format.
3. Analyze the DGS assumptions and provide a "test" of reasonableness to identify inherent risks in the various models.
4. Provide an overview of the possible market impact from the State purchase of the Bank of America Building.
5. Plot the various DGS scenarios on a single graph to pictorially display the various models.
6. Summarize my observations based on my limited research and detailed review of the DGS information.

After reviewing the DGS analysis, it appears that most of the assumptions are either based on reliable third party estimates or have been made purposely conservative in an attempt to not over state the results of the analysis. One of the most important benefits of purchasing vs. leasing is the equity build-up as the debt is amortized. After considering the equity build-up, it is significantly less expensive to purchase the Bank of America building and owner occupy it over the next 20 years than to continue leasing comparable office space. One of the strongest arguments in favor of owner-occupying a property is that the occupancy costs are more easily defined and predicted over a long period of time. This is because operational expenses are relatively easy to predict with inflationary factors and debt service in essence becomes a fixed rental payment. Most

owner-users recognize the benefit of ownership of property so long as they have an identifiable need for such real estate over the long term. According to DGS, the State of Alaska leases over 760,000sf of office space in the Anchorage area and it is virtually certain that they will continue to occupy a significant amount of space in Anchorage over the long term. Given this, it is quite reasonable to analyze the long term needs of the State of Alaska and it appears that ownership is a very viable and economical option for the State to consider. These ideas and concepts are more fully developed in the body of this report.

#### 1) Summary of Physical Improvements

The subject of this analysis is the Bank of America building located at 550 West 7<sup>th</sup> Avenue in Downtown Anchorage, Alaska. The property includes not only the physical structure and parking garage, but also nearly two and one half city blocks of Downtown Anchorage land. This is an important factor as the availability of convenient parking is critical to the successful operation of a downtown office building. The subject's ample parking is considered a significant benefit to the property for either an investor or an owner-purchaser. I personally inspected the building on Friday, March 14, 1997, and found the property to be in remarkably good condition considering it is nearly 14 years old. Pictures of the interior and exterior of the improvements are included at the end of this letter. I have also included an aerial photograph which identifies the subject parcels as well as some of the other significant structures in Downtown Anchorage.

According to information I was provided, the subject's legal description is Lot 1A, 3, 4A, 11 and 12, Block 79, Lots 1 through 12, Block 80, and Lots 1A, 9, 10 and 11A, Block 102, Original Townsite, Anchorage, Alaska. The combined land area of these parcels is 210,012sf and provides for the building and parking garage (79 spaces) footprint as well as 594 open surface parking spaces. The combined total of 673 parking spaces represents one parking space per 374sf of usable area which is an excellent parking ratio for a downtown property. By way of comparison, the Frontier Building has one garage parking space per 237sf of usable area and the downtown legislative affairs office building has one per 330sf of usable area. The improvements are 19 stories of office and nearly three stories of penthouse mechanical areas and represent a total gross building area of 313,257sf of office area, 18,980sf of mechanical area and 41,951sf of underground garage parking area. There is a grand total of 374,188sf of gross building area. According to provided information, the improvements have a usable area of 251,786sf and 288,901sf of rentable area. This represents a rentable/usable load factor of 1.1478. This is well in line with other Class A office buildings in the Anchorage area. A summary of the building areas is as follows:

Bank America Center Summary of Building Areas			
	<u>Usable Area</u>	<u>Rentable Area</u>	<u>Gross Area</u>
Floors 1-19	251,786sf	288,901sf	313,257sf
Mechanical Floors 20-22	---	---	18,980sf
Garage Parking	---	---	41,951sf
Total Area <sup>(1)</sup>	251,786sf	288,901sf	374,188sf

<sup>(1)</sup> Summarized from State documents and Follett & Associates appraisal dated March 3, 1997

With respect to quality, the Bank of America Center is one of the nicest quality and best maintained privately owned office buildings in the entire Anchorage Bowl. By national standards, it is one of the few true Class A Anchorage office properties and to its credit, has been impeccably maintained. The owners have consistently provided liberal tenant improvement allowances in the tenant areas which further enhances its overall appeal as a premiere downtown office property. I found absolutely no evidence of deferred maintenance during my inspection of this property. Based on its quality and condition, it is not unreasonable to expect this property to provide office space for the State's needs for 40 to 50 more years. This of course assumes adequate maintenance over the life of the building.

## 2) State of Alaska Division of General Services (DGS) Projections

I have been provided with numerous Excel spreadsheets which were prepared by DGS and are labeled "Summary of Cost Savings Bank of America Building" and are identified as Excel file BOFAPU14.xls. This Excel file contains a total of 27 pages and includes numerous references and assumptions in regards to the costs and benefits of purchasing this building. For ease of presentation, I have taken portions of the DGS information and have summarized it into three spreadsheet exhibits which are labeled "Purchase Bank of America Building" (Page One), "Continue Leasing Frontier Building" (Page Two), and "Deconsolidate from Frontier" (Page Three). These spreadsheets are located at the end of this letter and represent the information contained on pages 1 through 3 and 22 through 24 of the DGS Excel file. I will focus my discussion on the total costs for each of these scenarios for FY 1998 through FY 2017 on a price per square foot of usable area. It is noted that in all the exhibits the assumption is an overall square footage of 251,786sf and a blanket assumption for inflation of 4% annually. The purpose of these analyses is to indicate the total occupancy costs to the State of Alaska for occupying 251,786sf of total office space which is equivalent to the total usable area of the Bank of America Building.

The "Purchase Bank of America" spreadsheet includes as its major premise that the State of Alaska purchases the Bank of America Building for \$25,950,000 and finances it with a taxable Certificate of Participation (COP) for the first several years and once the property reaches 90% State occupancy, it is refinanced with a tax exempt COP which will carry an amortization term of 17 years. In order to reflect as accurate a portrayal as possible, the exhibit includes continuing leasing the Frontier Building (State Leases 2011 and 2096) for the remainder of their term as well as showing the rental income for existing Bank of America tenants which are not associated with the State of Alaska. It also includes the 22,378sf figure to match to the total usable area of the Bank of America Building of 251,786sf. The exhibit also includes the estimated Bank of America operating expenses, the projected debt service, as well as an allowance for the equity build-up based on an amortization of the debt over the holding period. It should be pointed out that revenue streams or equity build-up are shown as negative numbers to represent an offset to the overall expenses of the property.

In FY 1998, it can be seen that total expense for leasing the area within the Frontier Building and the other space to match overall square footages and adding Bank of America operating expenses and deducting Bank of America existing revenue, yields a total expense in the first fiscal year of \$2,889,600. This equates to \$0.96/sf of usable area in the first year. It is noted that this expense steadily climbs to \$1.98/sf in the year 2000, which is a result of increased debt service, decreased revenue from existing Bank of America tenants and no allowance for equity build-up is contemplated in the first several years. As the Frontier leases are extinguished and equity build-up becomes a factor, the total occupancy cost drops to \$1.21/sf by FY 2002. It is noted in 2017 that total occupancy costs for this space are \$1.03/sf which represent a minor amount of continued revenue from the Bank of America Building and inflation adjusted operating expenses. Notice that debt service and equity build-up are zero as the COP indebtedness is completely paid at this point. After the year 2017, the only changes to overall occupancy expenses would be the projected inflationary increases in operating costs.

The "Continue Leasing Frontier Building" model includes the two State leases within the Frontier Building which total 176,151sf, the State lease within the Bank of America Building at 53,255sf and the 22,378sf of other space. This other space is included to make the total equal the targeted 251,786sf. The premise of the "Continue Leasing Frontier Building" is that each of the State leases stay in place for the entire 20 year projection and that the lease rates are escalated at 35% of the base rent times the increase in CPI. The State's thought behind this type of escalation is that operating expenses are approximately 35% of the total rent and they are only willing to pay for increases in operating costs and not base rent. Considering the projected 4% annual inflation rate results in an applied increase in rent of only 1.4%/yr (4% X 35%). This escalation is consistent with the majority of State office leases. The "other space" is projected to

lease at a rate of \$1.50/sf which is DGS's projection of market cost for this type of office space. As shown on this exhibit, the total cost to lease this combined space in FY 1998 is \$5,977,021 or \$1.98/usable sf/mo. This continues to escalate throughout the entire term to \$8,026,889 in FY 2017 or \$2.66/sf of usable area.

For the "Deconsolidate from Frontier" exhibit, it shows the actual Frontier Building leases for FY 1998, 1999, 2000 and 2001, and the "other space" which is necessary to bring the total square footage to 251,786sf at \$1.50/sf for FY 1998, 1999 and 2000. The assumption here is that once the Frontier Building leases expire, the entire 251,786sf will be deconsolidated into various buildings of roughly 30,000sf each at an initial rate of \$1.26/sf in 1997 dollars, escalated to FY 2000 and once the leases are in place, they are escalated at the projected 1.4%/yr escalation factor. Notice that this exhibit also includes an annual allowance for the "deconsolidation, remodeling/relocation expense" and an allowance for "deconsolidation inefficiencies". These numbers are derived from 1994 estimates by the Department of Natural Resources (DNR) and a similar DGS estimate for Health and Social Services when they were contemplating moving from the Frontier Building. It is recognized that the \$1.26/sf estimate of rent is based on the basic rent for the real estate and the remodel/relocation expense reflects the cost to make the space ready for DNR or other typical State agencies. It is understood that the actual cost to relocate and remodel would likely be reflected in one year, but in order to present a more meaningful graph line, I have simply taken the estimated expense, divided it over the entire lease term to reflect an annual offset for this allowance. Notice that the relocation intervals are projected at 10 years and occur in year 2000 and again in 2009. The "deconsolidation inefficiencies" are based on the lack of synergy and interaction of office personnel by forcing a large agency (like DNR) to have multiple locations. This also reflects the cost of potential redundancies necessary to maintain services which are equivalent to those located in the Frontier Building. In FY 1998, the total cost to lease the Frontier space and other space is \$5,942,457 or \$1.97/usable sf/mo. After the total area is fully deconsolidated in FY 2002, the overall occupancy costs are roughly \$1.68/sf of usable area per month. After this time period, the occupancy costs escalate by the projected 1.4%/yr escalation factor. Notice that by the year 2017, total occupancy costs are \$2.33/sf of usable area per month.

### 3) "Test" of Reasonableness of Various DGS Assumptions in their Leasing Models

As a follow-up to our numerous conversations, you have asked if I can enumerate some of the strengths and weaknesses with the many assumptions utilized to model the various scenarios. It should be clearly understood that I have not completed any field research to validate or quantify the DGS assumptions utilized in these reports, but have rather tested their overall broad impact on the models to see if the overall results appear to fall in line with the general market.

I have spent considerable time analyzing the DGS spreadsheets in order to gain an understanding of the various assumptions and components which develop the preceding graph. As stated before, the "Continue to Lease Frontier Building" and "Deconsolidate from Frontier" scenarios assume that lease rates escalate at 1.4%/yr. This is a very conservative assumption in that it assumes a landlord is willing to lease at today's rates for a fixed term of 20 years with the only increases for changes in operating expenses. I further recognize that the current office market is characterized wherein rental rates are well below the costs necessary to justify building a new office building. Said another way, at today's rent levels and those projected in these models, it would be difficult if not impossible for a landlord to profitably build a new office building to meet the State's needs. As the overall demands for office space grow, it will eventually reach a point where rental rates have increased to a level near that necessary to justify new construction. While it may be impossible to predict precisely when new construction in the Anchorage area will be justified, it is quite probable that it will happen before the end of the next two decades. Given this prognosis, it is therefore also likely that sometime during this 20 year trendline the economy will spike upward and the State could be forced to pay significantly higher rents. It is noted that the cost to lease the Frontier space was \$2.55/sf in 1985, increased to \$2.59/sf in 1986 through 1990 and increased

again to \$3.09/sf from 1991 through 1994, peaking at \$3.29/sf in 1994. The current Frontier rate for Lease 2011 is \$2.17/sf. Considering the past decade, it is certainly possible that if the State continued to maintain occupancy in this building over the next 20 years, that it would again see rental rates that high. In the following paragraphs I will discuss the more prominent assumptions in the various models.

The "**Purchase Bank of America Building**" model utilizes actual contract rents for the Frontier Building and an estimated \$1.50/sf for the "other State leases" which are necessary to balance out the total area of 251,786sf. I have not studied the revenue for existing Bank of America tenants, but have been informed that it is the actual contract rental income for these tenants until their lease expires or their anticipated buy-out in order to make room for the Frontier leases to gain occupancy in the Bank of America Building. The Bank of America operating costs are based on those numbers utilized by an appraiser (Follett & Associates) who completed an in depth analysis of this property in February 1997. While I have not studied the individual projections, the overall expense projection appears reasonable and in line for a Class A building of this type. The allowance for debt service and equity build-up were provided by Mr. Forest Brown, State Debt Manager for the Division of Treasury within the Department of Revenue, and are reflective of the current costs of borrowing for the State of Alaska.

With the exception of the amount of space available for State occupancy, it appears that the vast majority of the assumptions under the "Purchase Bank of America Building" model are based on third party factual information and are therefore expected to be reasonable estimates. With regard to the amount of space available for State occupancy, it is noted that the building currently has some 40,000sf of vacant space and the model provides the State approximately two years to accumulate the space necessary to move the Department of Natural Resources into this building. It is reported that the remaining space could be approached on a "take it or leave it" basis wherein the State would in fact be financially enhanced if the existing non-State tenants continued to pay rental rates significantly above the State's operational costs and debt service. On the other hand, many of these tenants may recognize that the character and flavor of this building will change somewhat as it gains higher and higher State occupancies and they may find it desirable to utilize early-out options which the State will offer in order to relocate to other office space in the Downtown or Midtown area.

As will be discussed below, there is roughly 170,000sf of space expected to come on line in the next 12 months in the Downtown area which may provide enough options for the existing Bank of America tenants to move to other suitable quarters. This is not to say that all the existing non-State Bank of America tenants will move to these two choices, but that as this space comes on line, there will likely be a "churning" of Downtown tenants which will provide for a broader selection of office choices for the existing tenants. In summary, it appears that the only assumption in this model which deserves close scrutiny is the assumption that the State could obtain an adequate amount of square footage to accommodate the Department of Natural Resources. Given the amount of current vacancy and the two year lead time, this does not appear to be an unreasonable assumption. While it is clearly recognized that some tenants will likely continue to occupy their space throughout the entire length of their term and perhaps option period, other tenants acting in their own financial best interest may opt for some of the State's inducements and move to other buildings.

The "**Continue Leasing Frontier Building**" model is fairly straight forward in that it assumes that the existing two State leases within the Frontier Building continue for the entire 20 year projection period at the current rental rates escalated at the above determined 1.4% annual increase. This model also includes continuing the Bank of America State office lease at what the Follett & Associates appraisal determined to be below market rents. Again this rate is escalated at 1.4% annually. In order to bring the total to 251,768sf, the model includes a hypothetical tenant which

mirrors that of another State agency at \$1.50/sf beginning the first year and escalating at the standard escalation factor of 1.4%/yr.

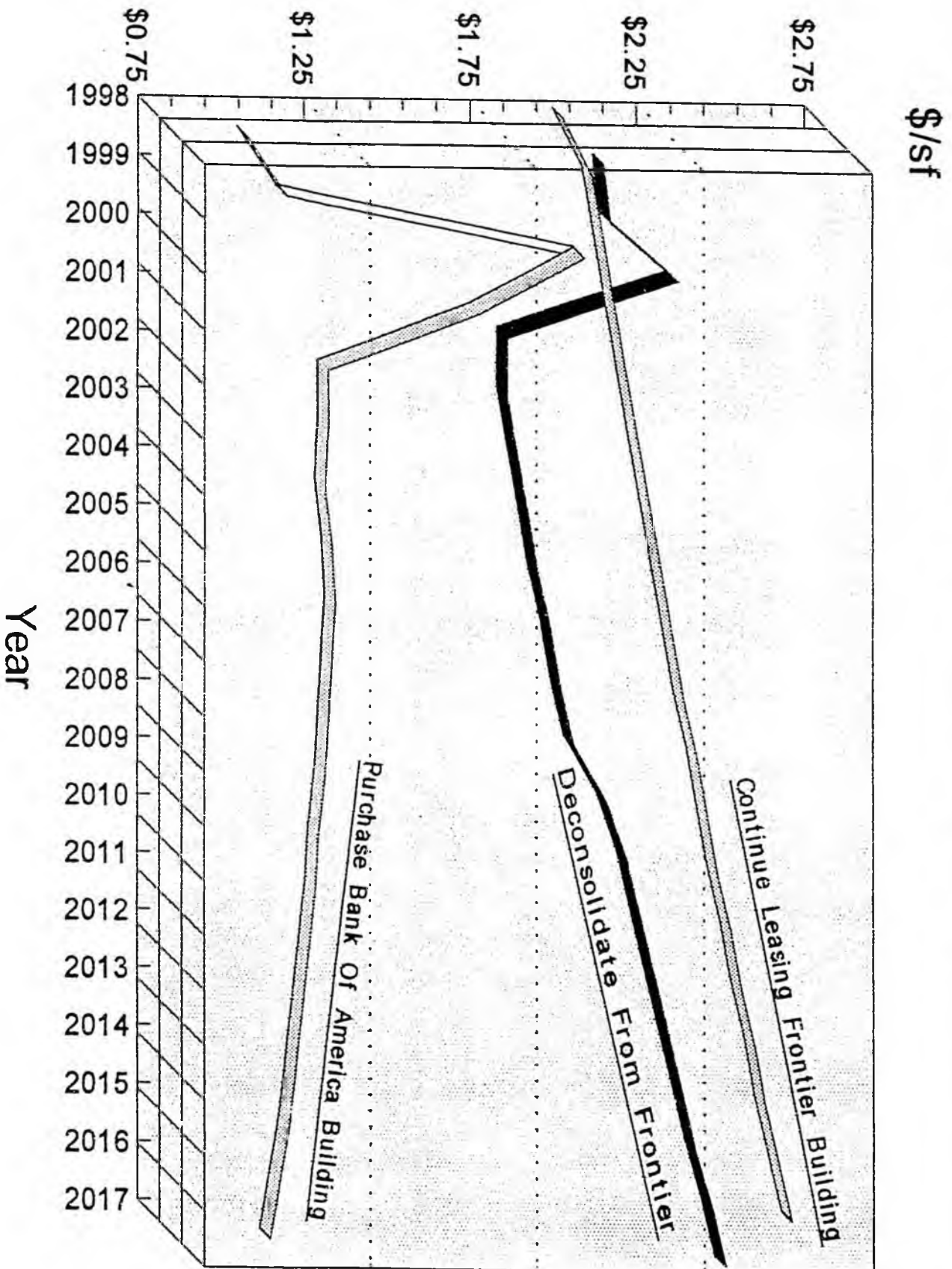
The question in my mind is whether a landlord would be willing to establish lease rates at today's level and leave them fixed for a 20 year period without any room for increased profits. That is to say, the 1.4% annual increase in essence reflects only those changes in operational expenses and does not include any increased cash flows over the 20 year period to the landlord. This is especially significant for the State's Bank of America lease which is at a sub-market rate of \$1.55/sf. In this model, the landlord would in essence be required to keep this lease payment at below market rates for a 20 year terms. The "other State leases" would also be fixed at a rate of \$1.50/sf over a 20 year term. In the current market, it is recognized that \$1.55/sf is not adequate to justify new construction and therefore, over the long term, it may be unreasonable to expect that these rates will stay at their favorable levels. Considering this, I believe that this model may be considered somewhat conservative in that it does not adequately reflect upward inflationary pressures which will undoubtedly come to bear some time during the next 20 years.

The "Deconsolidate from Frontier" model is very similar to the "Continue Leasing Frontier Building" in that it assumes escalations of 1.4%/yr and includes the actual contract lease payments for the Frontier Building and the balance of the space needed to reach the total of 251,786sf at \$1.50/sf through the term of the Frontier leases. After the expiration of these leases, it is assumed that the entire 251,786sf of space is deconsolidated to various office buildings throughout Anchorage at a rate of \$1.26/sf of usable space in 1997 rent escalated at the 1.4%/yr. In addition, there is an allowance for deconsolidation remodel/relocation expense which is estimated by DNR and DGS at 1994 dollars and escalated at 4% annually to the year 2000. According to these estimates, the year 2000 costs for this one year expense would be \$5,514,891. It is recognized that this expense is expected to occur in 10 year intervals and I have divided it by 10, indicating an annual allowance of \$551,489. In terms of the one year expense, this is roughly \$21.90/sf of usable area in the year 2000. While this appears to be a very high figure, it may in fact be necessary when considering all the improvements which are in place in the Frontier Building. Further, there is an allowance for the inefficiencies to DNR for a deconsolidated mode which is estimated at \$440,331 in 2000, escalating at the same factor as all other expenses.

When looking at the "Deconsolidate from Frontier" model, it is clear that the initial projected rent of \$1.26/sf is a very conservative estimate and is in fact roughly \$0.12/sf below the actual blended lease rate of all State office leases in the Anchorage area. On the other hand, a remodel/relocation allowance of \$21.90/sf is rather high in the market place and it is likely that this offsets most if not all of the low rent projections. Looking out at year 2001, it can be seen that the total cost per usable square foot of the deconsolidation is \$1.68/sf including the inefficiencies allowance and the remodel/relocation allowance. When looking at the current market, a \$1.68/sf rent estimate is not unreasonable given the amount of alterations necessary and the fact that this is projected to occur nearly four years in the future. The one issue which remains conservative throughout all the models is the expectation that this lease rate could be achieved for 20 years with the only increases attributed to inflation of operational costs. This is a common thread which has been conservatively estimated throughout all the leasing models.

On balance, it appears that most of the projections made in these models are either based on reliable third party estimates or as you stated, have been made purposely conservative in an attempt to not overstate the results of the analysis. While it is difficult to quantify, it appears that it is probably more likely that the actual cost experienced under the "Continue to Lease" or "Deconsolidate" models would be higher given a potential economic spike somewhere during the 20 year term. Given this, I believe that the total assumptions produce a trend line which is generally conservative in nature and that the actual experience may be somewhat higher than these graph lines.

# CONTINUE LEASING VS. PURCHASE



#### **4) Impact of the State Purchase of the Bank of America Building**

You have also asked me to consider what kind of impact the State of Alaska purchasing the Bank of America Building would have on the overall office market. As we have agreed, I have not completed an exhaustive detailed market survey, but have rather enumerated some of the potential impact a State purchase would have on the local market. I have talked with numerous real estate brokers and property owners to aid me in this analysis and most have concluded that the State purchase of the Bank of America Building would have limited long term impact as it would be simply shifting State occupancy from one large Class A building to another. They also felt that the length of time necessary to move the existing tenants from the Frontier Building would give them adequate time to secure tenants so as to not have leases expiring during that time frame. As with many issues with real estate, timing is a critical factor in measuring its overall impact. Two events which will help to mitigate impact of the State purchase of the Bank of America Building are the opening up of one of the ARCO Towers and a large portion of the First National Tower in Downtown. The ARCO Tower will offer 110,000sf of office space within one block of the Bank of America Building and according to the leasing agent, this space will be available when seismic upgrades are completed in Spring 1998. First National Bank of Anchorage is building a new headquarters building in Midtown and will be vacating approximately 60,000sf in their Downtown office tower. This space will also be coming on line in late 1997 and early 1998. These two properties alone total 170,000sf, which is more than the amount of potentially displaced tenants in the Bank of America Building over the next two to three years.

Several people I surveyed mentioned that there may be more impact on the market if the State does not proceed with this purchase. Their thoughts are that if the State does not buy the building, it will most likely sell to a new private owner who will immediately begin competing with the 40,000sf of currently vacant space. This would be added competition to the ARCO and First National space coming on line in late 1997. Part of my respondents' concern of a new private owner is that they perceive the sales price to be very competitive and it allows a new buyer to purchase the property at well below construction cost prices. The sales price of \$25,950,000 is \$103.06/sf of usable area including land. While I have not analyzed (or appraised) this property, it appears to be a very favorable price based on the sales comparisons I am aware of. This was also the consensus of most of the people I talked to. In the end, it is difficult to predict the precise impact on the market, but it is likely to be minimal in the short term and depending on various factors, may be limited to a few Midtown properties when State leases expire in the Frontier Building in 1999 and 2000.

#### **5) Graph of the three DGS Cost Benefit Models**

On the facing<sup>1</sup> page is a graph of the DGS findings of the various monthly occupancy costs for the three scenarios discussed above. These graph lines in essence represent how much the State of Alaska would pay on a monthly basis for 251,786sf of usable office space in the Anchorage area. As can be seen, the highest line is "Continue Leasing Frontier Building". Pictorially this says that the most expensive of the three choices would be to continue to lease office space within the Frontier Building. It is noted that "Deconsolidation from Frontier" represents nearly identical costs for the first two years peaking in Year 3 and dropping steeply in Year 4 as full deconsolidation from the Frontier Building takes place. From FY 2001 to FY 2009, the deconsolidate line has approximately the same slope as continuing to lease, but at a \$0.45/sf lower basis. These lines grow closer together in FY 2010 as the deconsolidate has a step-up in the remodel/relocation expense in that year.

The lowest line, and therefore the least expensive option for the State of Alaska, is to purchase the Bank of America Center, and this is depicted as being near \$1.00/sf for the first two years, spiking up to nearly \$2.00/sf in the year 2000, and then dropping off drastically to as low as

<sup>1</sup> Facing Page: Graph of Various Monthly Occupancy Costs for the Three Scenarios

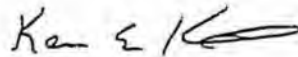
\$1.21/sf in 2002 and 2003. You will notice that the line is relatively flat from 2002 through 2009 and then decreases from 2010 through 2017. The decreasing slope of the expense line represents the added savings as the loan amortizes and in 2017, reaches a level where the building is free and clear and the only expenses are on-going operational costs for the building. This is a significant benefit as neither of the leasing scenarios include equity build-up and at the end of the 20 year term, the State of Alaska would be forced to continue to lease office space at whatever the market rents were at that time.

**6) Summary of Recommendations and Observations**

After reviewing the DGS spreadsheets and information, it appears there are numerous assumptions which can be judged differently as to the degree or magnitude, but in total they are not unreasonable. In fact, some of the continue leasing/deconsolidate rent projections appear to be conservative when considering they are in essence fixing today's competitive rents over the next 20 years. After considering equity build-up, it is also clear that it is significantly less expensive to purchase the Bank of America Building and occupy it over the next 20 years than it is to continue leasing either in the Frontier Building or deconsolidated to various office buildings throughout the Anchorage area. By the year 2017 (once the debt is paid off), there is a staggering \$4,000,000 to \$5,000,000 annual difference in expenses between owning the Bank of America Building and continuing to lease the equivalent amount of space. It is further evident that the State of Alaska is and will continue to be a large user of office space over the predictable future. Given this prognosis, it appears clear that if the State of Alaska's intent is to reduce overall occupancy costs, then it would be in their best interest to pursue the purchase of the Bank of America Building based on the assumptions predicated in the DGS report.

This analysis is subject to the assumptions and limiting conditions contained herein. I hope this information has helped and will assist you in your decision making process. If I can answer any further questions, please do not hesitate to call.

Cordially,



Ken E. Kincaid, MAI

KEK/IW

## CERTIFICATION & LIMITING CONDITIONS

I Certify that to the best of our knowledge and belief:

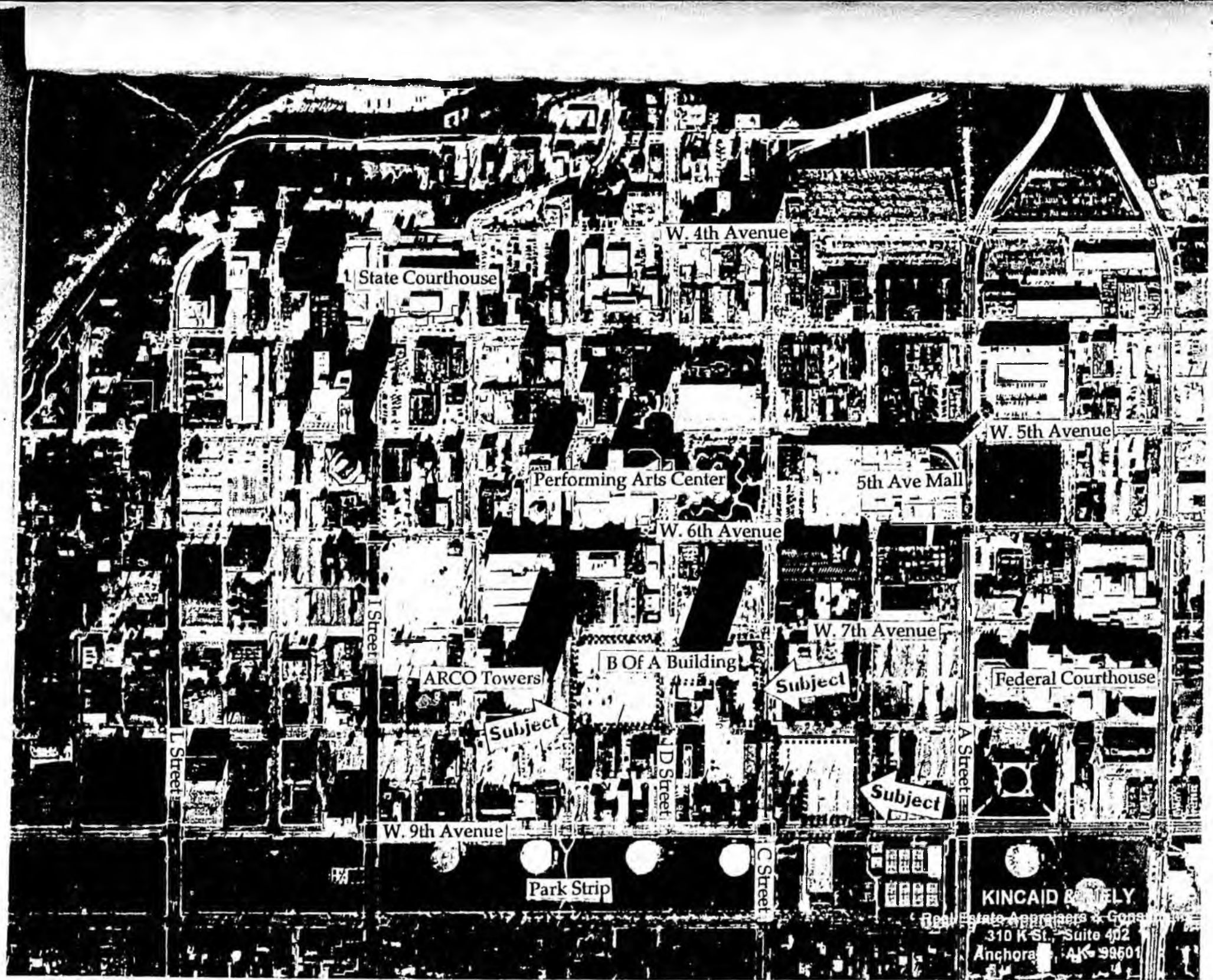
- 1) I have no present interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased, professional analyses, opinions and conclusions.
- 3) The statements of fact contained in this report are true and correct.
- 4) Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of this report.
- 5) This report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.
- 6) Unless specifically stated in the body of this report our analyses, opinions, and conclusions were developed, and this report has been prepared, in accordance with the standards and reporting requirements of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989 and the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
- 7) This report has also been made in conformity with, and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.
- 8) I have made a personal inspection of the property that is the subject of this report, unless otherwise stated in the Letter of Transmittal.
- 9) No one provided significant professional assistance to the person signing this report, unless otherwise stated in the Letter of Transmittal.
- 10) The consultant has made no survey of the property and assumes no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 11) It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures (including asbestos, soil contamination, or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 12) Responsible ownership and competent management are assumed.
- 13) No responsibility is assumed for the legal description or for matters including legal or title consideration.
- 14) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 15) The consultant is not required to give testimony or attendance in court by reason of this report unless arrangements have previously been made therefor.
- 16) The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 17) The consultant hereby certifies that this assignment was not based on a requested minimum valuation, a specific valuation, or approval of a loan, and that the consultant was competent and qualified to perform the assignment.
- 18) Unless otherwise stated in this report, the subject property is analyzed without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The present of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability or utility.
- 19) Ken E. Kincaid, MAI is currently certified by the State of Alaska, as a General Real Estate Appraiser through June 30, 1997 (Certificate No. AA-2).
- 20) The Appraisal Institute has a continuing education certification program which is either voluntary or mandatory depending on when the member was certified. Ken E. Kincaid, MAI is under the mandatory program and has met all the Appraisal Institute continuing education requirements through December 31, 2001.

### RESTRICTION UPON DISCLOSURE & USE

Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute.

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which (s)he is connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraiser.

  
\_\_\_\_\_  
Signature of Appraiser



State Courthouse

W. 4th Avenue

Performing Arts Center

5th Ave Mall

W. 5th Avenue

W. 6th Avenue

W. 7th Avenue

ARCO Towers

B Of A Building

Subject

Federal Courthouse

Subject

D Street

Subject

A Street

W. 9th Avenue

Park Strip

C Street

KINCAID REALTY

Real Estate Appraisers & Consultants  
310 K St., Suite 402  
Anchorage, AK 99501