

**ALASKA LEGISLATURE**

**1677**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998**

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	\$554,583	\$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	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	4,233,389
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	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>4,790,548</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:

(Base per square foot cost x 35%) x 4% plus prior year per square foot cost = 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	1,513,322	2,153,929
<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	1,962,510	2,793,264
<b>HSS - estimated, no breakout</b>	1,040,000	1,480,244
<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"	999,059	1,421,973
<b>Total One Time Costs</b>	5,514,891	7,849,410

## 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.)

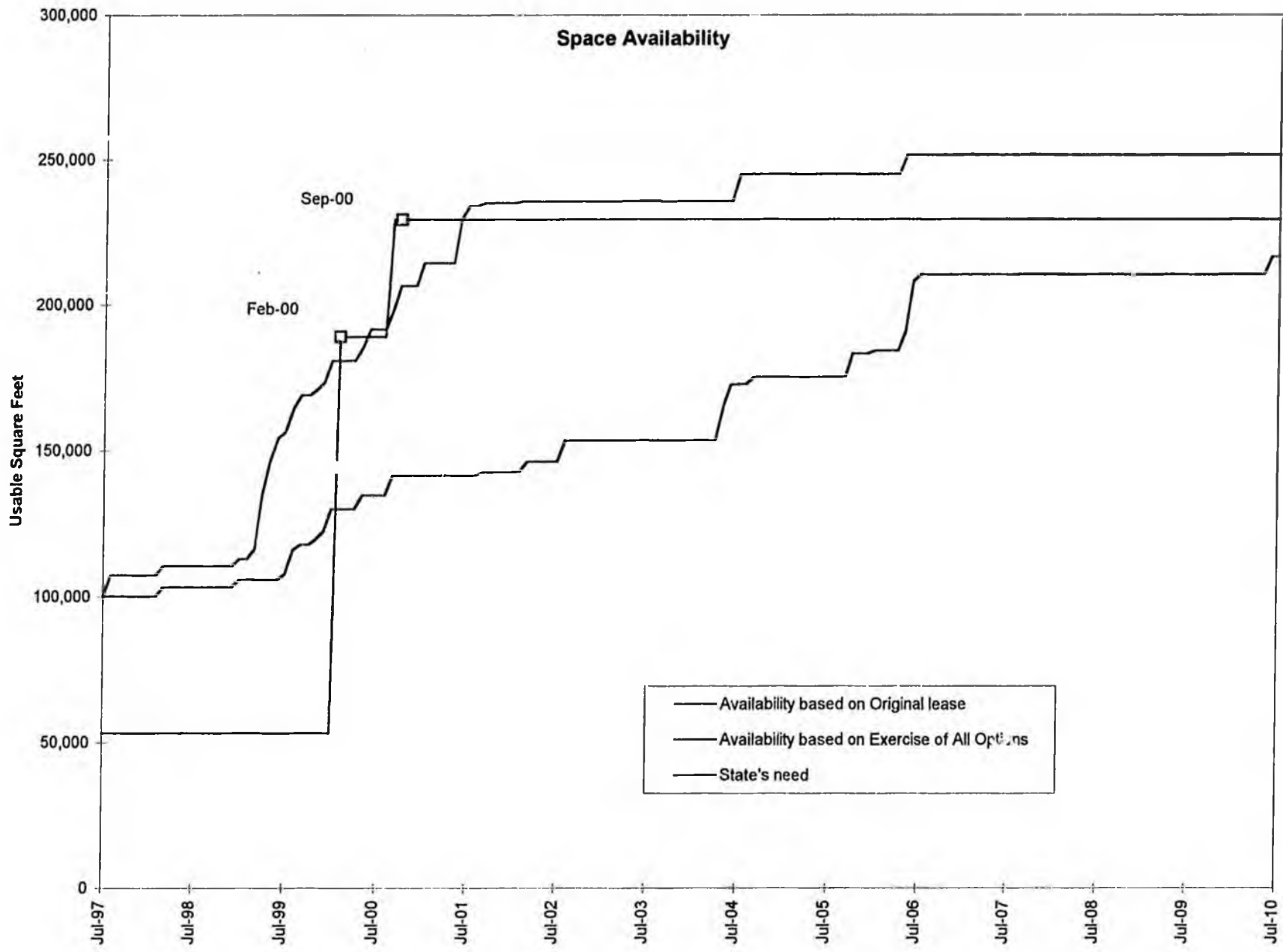
## Buy Subject Property with Financing

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.

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April 10, 1997

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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.

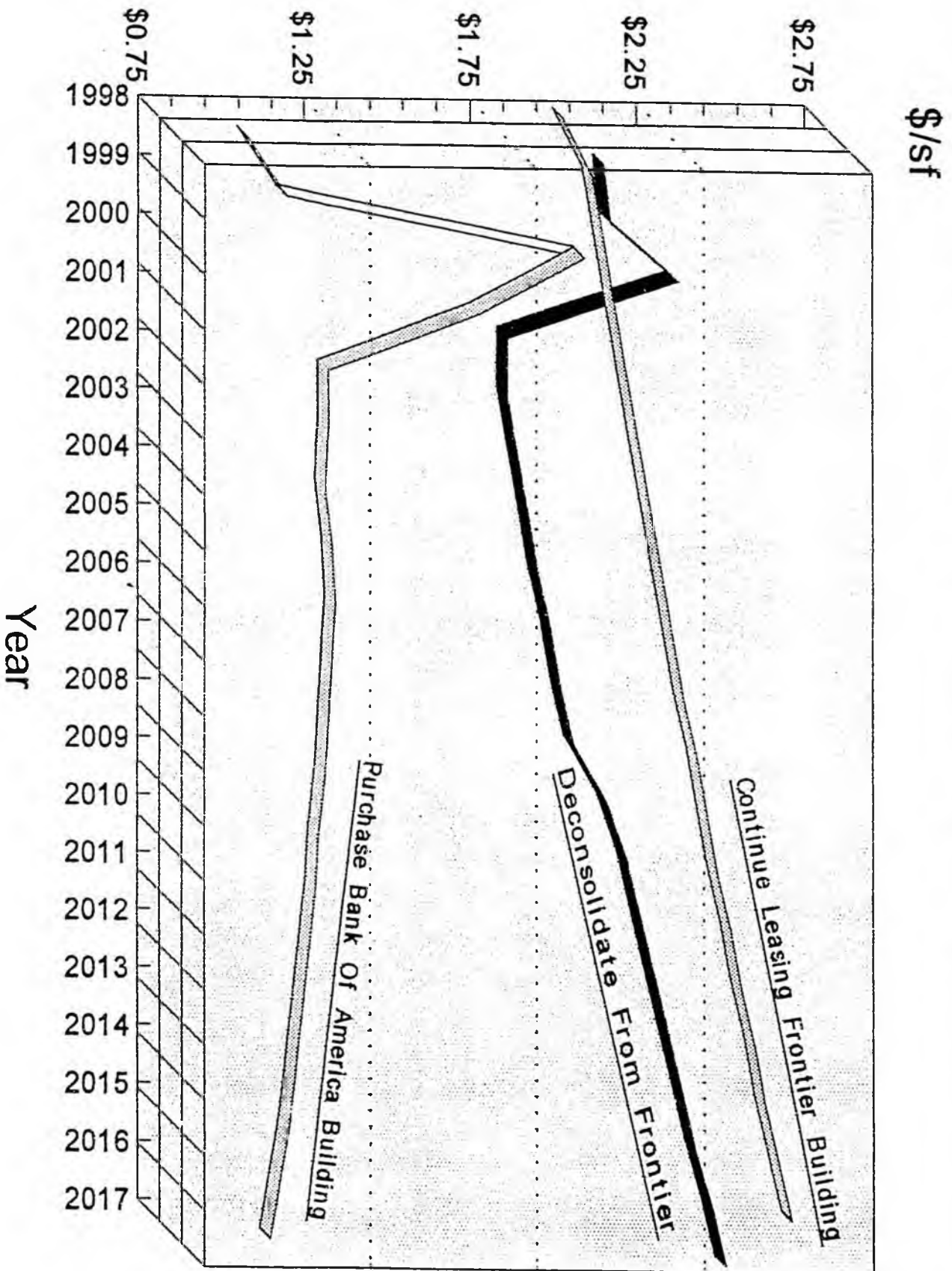
The question in my mind is whether a landlord would be willing to establish lease rates at today's level and leave them fixed for a 20 year period without any room for increased profits. That is to say, the 1.4% annual increase in essence reflects only those changes in operational expenses and does not 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

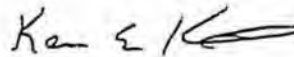
\$1.21/sf in 2002 and 2003. You will notice that the line is relatively flat from 2002 through 2009 and then decreases from 2010 through 2017. The decreasing slope of the expense line represents the added savings as the loan amortizes and in 2017, reaches a level where the building is free and clear 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

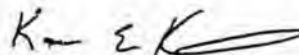
I Certify that to the best of our knowledge and belief:

- 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.

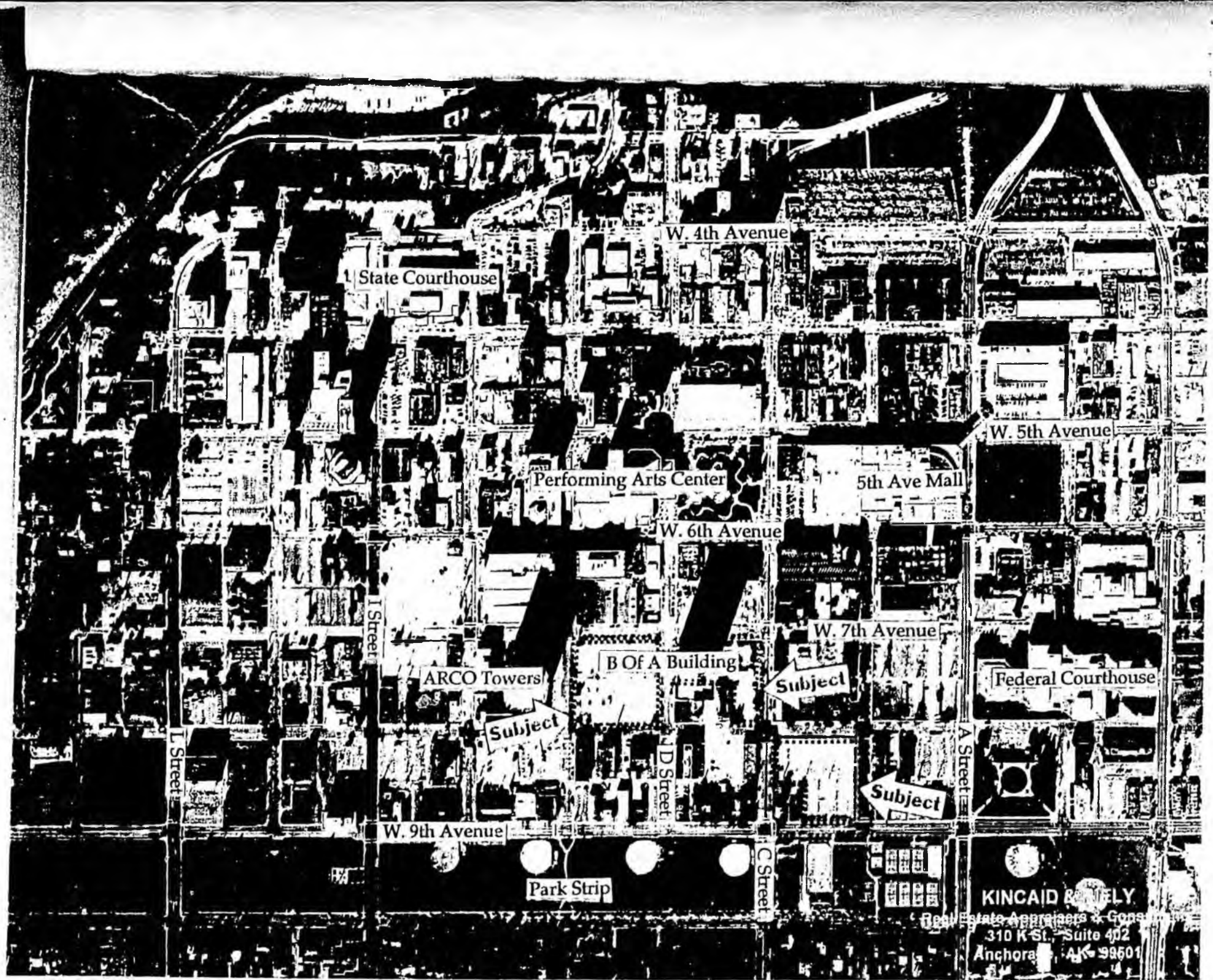
### RESTRICTION UPON DISCLOSURE & USE

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

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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 RUTELY

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

**HB**

**239**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 8, 1997

FURTHER REFERRALS:

Date of Committee Action: 3/6/98

The FINANCE Committee considered:

HB 239

HOUSE BILL NO. 239

MOTOR FUEL TAX CREDIT: TAX NOT PD BY USER

“An Act relating to the liability of motor fuel dealers for payment of tax imposed on certain credit transactions involving motor fuel sales or transfers that become worthless debts or on sales or transfers to persons who declare bankruptcy; and providing for an effective date.”

recommends it be replaced with the following committee substitute CS HB 239 (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) REVENUE

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

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

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

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Therriault</i>	Therriault			X	
<i>Edmond Field</i>	Minden			X	
<i>Eric Kohring</i>	Kohring	X			
<i>John Davies</i>	J. Davies			X	
<i>Ben Grussendorf</i>	Grussendorf			X	
<i>Carol Moses</i>	Moses	X			
<i>Pat Kelly</i>	Kelly			X	
<i>[Signature]</i>	Foster	X			
<i>[Signature]</i>					
<i>[Signature]</i>					

CO CHAIR'S SIGNATURE

*Gene Therriault*  
 Therriault

Revision Date: \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Motor Fuel Tax Credit: Tax Not Pd by User BRU: Revenue Operation  
 Component: Income and Excise Audit  
 Sponsor: Representative Davis  
 Requestor: (H) FIN COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( GF )	*****	*****	*****	*****	*****	*****

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY98) cost \$0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

\*\*\*\*\*See Attached

Prepared by: Paul E. Dick Phone: 465-3691  
 Division: Income and Excise Audit Division Date: February 23, 1998  
 Approved by Commissioner: Wilson L. Condon Date: February 23, 1998  
 Agency: Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

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DEPARTMENT OF REVENUE  
Income and Excise Audit Division

Motor Fuel Tax Credit: Tax Not Pd by User  
HB 239  
February 23, 1998  
Page 2 of 3

**BILL ANALYSIS**

**Section 1** states legislative findings that motor fuel dealers should not be burdened with a motor fuel tax remittance obligation if the tax liability on a transaction is significant and the underlying debt becomes worthless or the person to whom motor fuel had been sold or transferred becomes a debtor under federal bankruptcy laws; the tax liability and payment responsibility should remain with the person.

**Section 2** amends motor fuel statutes by adding a new section that entitles motor fuel dealers to a bad debt credit against their motor fuel tax liability when the dealer sells or transfers motor fuel to a person on credit and if that person (1) has become a debtor under federal bankruptcy laws (11 U.S.C.) or (2) ceased paying their debt and the dealer treats the person's debt as a worthless debt under the Internal Revenue Code (26 U.S.C. 166). Dealers would be entitled to a credit if a sale or transfer results in a tax liability of \$500 or more.

The dealer may not claim a refund for the amount of credit but may claim the credit against motor fuel taxes payable. Dealers would be required to provide documentation substantiating bankruptcy or worthless debt. If, as to a credit transaction for which a credit was claimed, a person subsequently makes payment of all or part of the debt, the dealer would be required to remit all or part of the tax.

Dealers would not be allowed a credit if the dealer, within the 3-year period before making a claim above, previously reported that a credit transaction debt of the purchaser or transferee is a worthless debt. Credits would not apply to dealers who sell or transfer fuel after the dealer knows that the purchaser or transferee is a debtor under federal bankruptcy laws or treats a previous credit transaction as a worthless debt under the Internal Revenue Code.

**Section 3** provides that this bill would apply to sales or transfers of motor fuel that are made after the effective date of the bill.

**Section 4** provides for a July 1, 1997 effective date.

DEPARTMENT OF REVENUE  
Income and Excise Audit Division

Motor Fuel Tax Credit: Tax Not Pd by User  
HB 239  
February 23, 1998  
Page 3 of 3

**OPERATING EXPENDITURES**

Department of Revenue does not anticipate additional costs for administering the provisions of this bill.

**REVENUE**

It is not feasible to estimate the revenue loss from the tax credit allowed under this bill because bad debt motor fuel sales data is not available. Using FY 1997 motor fuel sales data adjusted for the effects of HB 63 (enacted last session) and assuming that .1% of taxable gallons qualify for the bad debt credit under this bill, the state would lose approximately \$44,300 in motor fuel tax revenue.

# 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

## MEMORANDUM

March 7, 1998

**SUBJECT:** Motor fuel taxes (CS HB 239(FIN))

**TO:** Representative Gene Therriault  
Attn: Mike Tibbles

**FROM:** Richard A. Glover  
Legislative Counsel

*RM  
for Richard Glover*

Enclosed is the requested final version of CSHB 239(FIN). I would like to point out that the requested change at page 2, lines 5 - 6 is awkward, since the paragraph can refer to "transactions of \$500 or more," meaning only single transactions of \$500 or more, and that in the aggregate result in a tax liability. A better phrase would be "....result in a tax liability on the transactions of \$500 or more in the aggregate"

If I may be of further assistance, please advise.

RAG:glc  
98-151.glc

Enclosure

3/6/98

0-LS0768\B.1

Chenoweth

4/10/97

*Handwritten initials/signature*

*adopted No/obj*

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE DAVIS

TO: HB 239

- 1 Page 2, line 8:
- 2 Delete "the transaction"
- 3 Insert "one or more transactions in the aggregate"
- 4 Page 2, line 13:
- 5 Delete "a sale or transfer"
- 6 Insert "sales or transfers"
- 7 Page 2, line 15:
- 8 Delete "a credit transaction"
- 9 Insert "one or more credit transactions"
- 10 Page 2, line 24:
- 11 Delete "the sale or transfer"
- 12 Insert "sales or transfers"
- 13 Page 2, lines 25-26:
- 14 Delete "sale or transfer results in a tax liability on the transaction"
- 15 Insert "sales or transfers result in a tax liability, in the aggregate, on the transactions"
- 16 Page 2, line 28:
- 17 Delete "transaction"
- 18 Insert "transactions"
- 19 Page 2, line 23:

1 Delete "transaction"

2 Insert "transactions"

3 Page ~~7~~<sup>2</sup>, line ~~14~~<sup>29</sup>

4 Delete "transaction"

5 Insert "transactions"

*Page 3 line 29  
after "does not apply to"  
Insert "a credit transaction by"*

#3 adopted  
conceptual amend.  
\* add five year sunset

0-LS0768VH  
Glover  
3/6/98

adopted 3/6/98

**CS FOR HOUSE BILL NO. 239(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTIETH LEGISLATURE - SECOND SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:  
Referred:**

**Sponsor(s): REPRESENTATIVE DAVIS**

**A BILL**

**FOR AN ACT ENTITLED**

1 "An Act relating to the liability of motor fuel dealers for payment of tax  
2 imposed on certain credit transactions involving motor fuel sales or transfers that  
3 become worthless debts or on sales or transfers to persons who declare  
4 bankruptcy; and providing for an effective date."

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

6 \* **Section 1.** AS 43.40 is amended by adding a new section to read:

7 **Sec. 43.40.025. Handling of tax in a sale or transfer of motor fuel in**  
8 **certain credit transactions.** (a) This section applies when a dealer who sells or  
9 otherwise transfers motor fuel in a credit transaction in the state subsequently  
10 determines that the person to whom the motor fuel was sold or transferred in the credit  
11 transaction

- 12 (1) has become a debtor under 11 U.S.C. (Federal Bankruptcy Act); or
- 13 (2) has ceased to pay the person's debts in the ordinary course of
- 14 business or cannot pay the person's debts as they become due, and the dealer treats the

1 person's debt as a worthless debt or partially worthless debt under 26 U.S.C. 166.

2 (b) A dealer is entitled to a credit in an amount equal to the tax remitted to  
3 the department for the tax due on the sale or transfer of motor fuel in circumstances  
4 described in (a) of this section if

5 (1) under this chapter, the sale or transfer results in a tax liability on  
6 the transaction of \$500 or more; and

7 (2) the dealer has submitted a statement and remitted the tax due on the  
8 transaction under AS 43.40.010(c).

9 (c) The dealer may not claim or obtain a refund of the amount of a credit to  
10 which the dealer is entitled under (b) of this section. The dealer may apply the credit  
11 authorized by (b) of this section against the motor fuel tax payable under this chapter  
12 by the dealer to the state

13 (1) during the month in which the dealer provides written notification  
14 to the department of the claim of the credit accompanied by a copy of the bankruptcy  
15 petition filed by the person to whom the motor fuel was sold or transferred; or

16 (2) in the first month after the dealer reports to the Internal Revenue  
17 Service that the debt of the person to whom the motor fuel was sold or transferred is  
18 a worthless debt or partially worthless debt by claiming the debt as a deduction under  
19 26 U.S.C. 166.

20 (d) If, as to a credit transaction described in (a) of this section for which a  
21 credit was claimed and allowed under (b) and (c) of this section, the person to whom  
22 the motor fuel was sold or transferred later makes payment to the dealer of

23 (1) all of the debt due on the transaction, the dealer shall remit payment  
24 to the department of the tax as required by AS 43.40.010;

25 (2) a portion of the debt due on the transaction, the dealer shall remit  
26 payment to the department of a proportional part of the tax as required by  
27 AS 43.40.010.

28 (e) The commissioner may not allow a dealer a credit under this section for  
29 the credit transaction debt of a person if the dealer claiming the credit has, within the  
30 five-year period immediately before making the claim of the credit, previously  
31 submitted a statement under (c)(2) of this section that a credit transaction debt of that

1 person is a worthless debt or partially worthless debt under (c)(2) of this section.

2 (f) This section does not apply to a dealer who sells or otherwise transfers  
3 motor fuel in a credit transaction after the dealer knows that the person to whom the  
4 motor fuel was sold in the credit transaction has become a debtor under 11 U.S.C.  
5 (Federal Bankruptcy Act).

6 (g) In this section, "credit transaction" means a transaction by which the  
7 payment for motor fuel subject to the tax levied under this chapter is to be made at a  
8 future date.

9 \* **Sec. 2. APPLICABILITY.** (a) This Act applies to sales or transfers of motor fuel  
10 subject to tax under AS 43.40.010 - 43.40.100 that are made on or after the effective date of  
11 this Act.

12 (b) In AS 43.40.025(e), added by sec. 1 of this Act, reference to a previously  
13 submitted credit transaction debt means a credit transaction debt that was reported to the  
14 Internal Revenue Service as a deduction against income under 26 U.S.C. 166 on or after the  
15 effective date of this Act because the credit transaction debt became worthless or partially  
16 worthless.

17 \* **Sec. 3.** This Act takes effect July 1, 1998.

A M E N D M E N T ①

OFFERED IN THE HOUSE

BY REPRESENTATIVE DAVIS

TO: HB 239

- 1 Page 2, line 8:
  - 2 Delete "the transaction"
  - 3 Insert "one or more transactions in the aggregate"
  
- 4 Page 2, line 13:
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- 7 Page 2, line 15:
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- 13 Page 2, lines 25 - 26:
  - 14 Delete "sale or transfer results in a tax liability on the transaction"
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- 16 Page 2, line 28:
  - 17 Delete "transaction"
  - 18 Insert "transactions"
  
- 19 Page 3, line 12:

1 Delete "transaction"

2 Insert "transactions"

3 Page 3, line 14:

4 Delete "transaction"

5 Insert "transactions"

# Alaska State Legislature

Interim:

145 Main Street Loop #223

Kenai, Alaska 99611

(907) 283-7095

(907) 283-3075 (fax)

(907) 262-7574 (h)

Session:

State Capitol

Juneau, Alaska 99801

(907) 465-2693

(fax) (907) 465-3835

Representative Gary L. Davis

## SPONSOR STATEMENT

### House Bill 239

**“An Act relating to the liability of motor fuel dealers for payment of tax imposed on certain credit transactions involving motor fuel sales or transfers that become worthless debt or on sales or transfers to persons who declare bankruptcy; and providing for an effective date”**

The Alaska motor fuel tax is an excise tax designed to be paid ultimately by the consumer or user of the fuel. For administrative reasons, state law requires the tax to be collected and paid by the motor fuel wholesaler at the time the fuel is sold or transferred. As a practical matter, this transaction often occurs at the wholesale level with businesses that subsequently resell the fuel to the consumer or user of the fuel.

In commercial transactions of this nature, it is customary and typical to extend reasonable credit terms that may result in a deferral or delay in the collection of both the debt and the motor fuel tax by the dealer. In some cases, the debt may become wholly or partially worthless because of a bankruptcy filing or other similar reasons.

House Bill 239 allows motor fuel dealers in these cases to receive a nonrefundable credit in an amount equal to the tax previously remitted to the state. The credit would be applied against subsequent tax liabilities only, and could only be taken for sales with a total tax liability of \$500 or more.

The language specifies that dealers may only apply for a bad debt credit by filing written proof of the bankruptcy petition, or after reporting the debt as worthless or partially worthless on the dealer's federal income tax return.

Many states and local governments authorize credits or deductions for taxes paid on accounts that are later found to be worthless. It is also typical to require the tax be repaid if the account or debt is subsequently recovered. House Bill 239 includes a provision requiring repayment of the tax if the account or debt is subsequently repaid, with partial payments to be handled on a proportional or pro rata basis.

HB239/SS/1/20/98

Representing House District 8

Soldotna, Sterling, Funny River, Cooper Landing, Hope, Moose Pass, Seward

# Alaska State Legislature

Interim:  
145 Main Street Loop #223  
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(907) 283-7095  
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Session:  
State Capitol  
Juneau, Alaska 99801  
(907) 465-2693  
(fax) (907) 465-3835

Representative Gary L. Davis

## SECTIONAL ANALYSIS OF HB 239

**“An Act relating to the liability of motor fuel dealers for payment of tax imposed on certain credit transactions involving motor fuel sales or transfers that become worthless debt or on sales or transfers to persons who declare bankruptcy; and providing for an effective date”**

Section 1: Explains the normal operating procedure for commercial transactions related to fuel sales. This explanation describes the reason for the tax, determining when the debt is worthless or partially worthless, and the impact upon the motor fuel dealer.

Section 2: Adds the following new section to AS 43.40, Motor Fuel Tax:

43.40.025(a) states when the dealer will be able to determine if a debt is wholly or partially worthless. AS 43.40.025(a)(1) and (2) are trigger mechanisms that determine the value of a debt owed to the fuel dealer.

43.40.025(b) explains the entitlement of credit on a worthless or partially worthless debt and the limitations for qualification.

43.40.025(c) explains that the fuel may not claim a refund but may use the entitlement as a credit toward future motor fuel tax debts. Sections 2(c)(1) and (2) state when the dealer may take the tax credit, and the procedures required before claiming the credit.

43.40.025(d) states that when a partially or wholly worthless debt that is collected at a later date, the dealer shall return payment to the Department of Revenue for all credit received.

43.40.025(e) requires a three-year period of time between requesting a credit for a partially or wholly worthless debt originating from the same person.

43.40.025(f) disallows the collection of a credit if the fuel dealer knows that a person to whom the fuel was sold has become a debtor under 11 USC or has ceased to pay the person's debts in an ordinary manner.

43.40.025(g) defines “credit transaction.”

Representing House District 8  
Soldotna, Sterling, Funny River, Cooper Landing, Hope, Moose Pass, Seward

Section 3: (a) states that this act applies to sales or transfers of motor fuel sale or transfers under AS 43.40.010-43.40.100. Section 3(b) states that the filing with the Internal Revenue Service as a deduction of income for applicability must be filed on or after the effective date of this legislation.

Section 4: provides the effective date of the legislation.



**FTA MOTOR FUEL TAX SECTION**

Federation of Tax Administrators • 444 North Capitol Street, N.W., Washington, D.C. 20001 • (202) 624-5890

---

February 25, 1998

Deb Davidson  
State of Alaska  
Representative Davis Office  
FAX 907-465-3835

Dear Deb.

I reviewed your fax on the proposed bad debt allowance and find that this proposed legislation is in line with other states statute's on the bad debt allowance.

If you need any further assistance please contact me at (307) 632-4144.

Cindy Anders-Robb  
Motor Fuel Tax Section Coordinator  
Federation of Tax Administrators

(1) the name and social security number of the individual whose dividend is being claimed;

(2) the amount the individual owes on a loan awarded under AS 14.43; and

(3) a statement that the loan is in default under AS 14.43.145, or, if the individual has requested review of the status of the loan under AS 14.43.145(c), that a final determination has been made that the loan is in default.

(b) The Alaska Commission on Postsecondary Education shall notify the individual of a claim under (a) of this section. The notice shall be sent to the address provided in the individual's permanent fund dividend application and must provide the following information:

(1) the amount of the claim;

(2) notice that the amount of the permanent fund dividend up to the amount of the claim shall be paid to the Alaska Commission on Postsecondary Education to be credited against the individual's loan balance; and

(3) the individual's right to a hearing under (c) of this section.

(c) Within 30 days after the date of the notice under (b) of this section, the individual may request a hearing. AS 44.62.330 — 44.62.630 apply to a hearing under this section. At the hearing, the borrower has the burden to show that

(1) the commission has not sent a notice of default in compliance with AS 14.43.145(b);

(2) the notice of default has been rescinded after review under AS 14.43.145(c); or

(3) the amount owed by the borrower is less than the amount claimed from the permanent fund dividend.

(d) If the amount owed by the borrower is determined under (c) of this section to be some amount greater than \$0, but less than the amount claimed, the commission may amend its claim to the amount determined to be owing. (§ 12 ch 92 SLA 1987; am §§ 5, 6 ch 52 SLA 1992; am § 17 ch 54 SLA 1997)

**Effect of amendments.** — The 1997 amendment, effective July 1, 1997, rewrote this section.

**Sec. 43.23.095. Definitions.**

**NOTES TO DECISIONS**

**Requirement of intent to return to state.** — A serviceman who was absent more than five years failed to establish intent to return to the state where the evidence showed that he returned for a brief visit only once in a 12-year period, he maintained only

motor vehicle registration, voter registration, driver's license and bar membership in Alaska, and he had not requested reassignment to Alaska. State, Dep't of Revenue v. Wilder, 929 P2d 1280 (Alaska 1997).

**Chapter 40. Motor Fuel Tax.**

**Section**

10. Tax on transfers or consumption of motor fuel and expenditure of proceeds

15. Exemption from collection of tax

92. Disallowance of exemption from motor fuel tax

**Section**

for certain fuel sold for use in jet propulsion aircraft operating in flights that continue from foreign countries

100. Definitions

**Sec. 43.40.010. Tax on transfers or consumption of motor fuel and expenditure of proceeds.** (a) There is levied a tax of eight cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

(1) the tax on aviation gasoline is four and seven-tenths cents a gallon; (2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon;

(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon;

(3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon; and

- (4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon other motor fuel; however,
- (A) in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection;
- (B) notwithstanding (A) of this paragraph, through June 30, 2004, the tax on motor fuel sold or otherwise transferred within the state is eight cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection if the motor fuel
- (i) is at least 10 percent alcohol by volume, has been produced from the processing of lignocellulose derived from wood, and was produced in a facility that processes lignocellulose from wood, but this reduction in the rate of tax applies to motor fuel sold or transferred that contains alcohol that was produced only during the first five years of the facility's processing of lignocellulose from wood; or
- (ii) is at least 10 percent alcohol by volume, has been produced from the processing of waste seafood, and was produced in a facility that processes alcohol from waste seafood, but this reduction in the rate of tax applies to motor fuel sold or transferred that contains alcohol that was produced only during the first five years of the facility's processing of alcohol from waste seafood.
- (b) There is levied a tax of eight cents a gallon on all motor fuel consumed by a user, except that
- (1) the tax on aviation gasoline consumed is four and seven-tenths cents a gallon;
- (2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon;
- (3) the tax on all aviation fuel other than gasoline is three and two-tenths cents a gallon; and
- (4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however,
- (A) in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection;
- (B) notwithstanding (A) of this paragraph, through June 30, 2004, the tax on motor fuel consumed by a user within the state is eight cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection if the motor fuel
- (i) is at least 10 percent alcohol by volume, has been produced from the processing of lignocellulose derived from wood, and was produced in a facility that processes lignocellulose from wood, but this reduction in the rate of tax applies to motor fuel consumed by a user that contains alcohol that was produced only during the first five years of the facility's processing of lignocellulose from wood; or
- (ii) is at least 10 percent alcohol by volume, has been produced from the processing of waste seafood, and was produced in a facility that processes alcohol from waste seafood, but this reduction in the rate of tax applies to motor fuel consumed by a user that contains alcohol that was produced only during the first five years of the facility's processing of alcohol from waste seafood.
- (c) Every dealer who sells or otherwise transfers motor fuel in the state shall collect the tax at the time of sale, and remit the total tax collected during each calendar month of each year to the department by the last day of each succeeding month. Every user shall likewise remit the tax accrued on motor fuel actually used by the user during each month. If the monthly tax return is timely filed, one percent of the total monthly tax due, limited to a maximum of \$100, may be deducted and retained to cover the expense of accounting

and filing the monthly tax return. At the time the remittance is made, each dealer or user shall submit a statement to the department showing all fuel which the dealer or user has distributed or used during the month.

(d) *[Repealed, § 3 ch 166 SLA 1976.]*

(e) Sixty per cent of the proceeds of the revenue from the taxes on aviation fuel, excluding the amount determined to have been spent by the state in its collection, shall be refunded to a municipality owning and operating or leasing and operating an airport in the proportion that the revenue was collected at the municipal airport. All other proceeds of the taxes on aviation fuel shall be paid into a special aviation fuel tax account in the state general fund. The legislature may appropriate funds from this account for aviation facilities.

(f) The proceeds from the revenue from the tax on motor fuel used in boats and watercraft of all descriptions shall be deposited in a special watercraft fuel tax account in the general fund. The legislature may appropriate from this account for water and harbor facilities.

(g) The proceeds of the revenue from the tax on all motor fuels, except as provided in (e), (f) and (j) of this section, shall be deposited in a special highway fuel tax account in the state general fund. The legislature may appropriate funds from it for expenditure by the Department of Transportation and Public Facilities directly or as matched with available federal-aid highway money for maintenance of highways, construction of highway projects and ferries included in the program provided for in AS 19.10.150, including approaches, appurtenances and related facilities and acquisition of rights-of-way or easements, and other highway costs including surveys, administration, and related matters. All departments of the state government authorized to spend funds collected from taxes imposed by this chapter shall perform, when feasible, all construction or reconstruction projects by contract after the projects have been advertised for competitive bids, except that, when feasible, arrangements shall be made with political subdivisions to carry out the construction or reconstruction projects. If it is not feasible for the work to be performed by state engineering forces, the commissioner of transportation and public facilities may contract on a professional basis with private engineering firms for road design, bridge design, and services in connection with surveys. If more than one private engineering firm is available for the work the contracts shall be entered into on a negotiated basis.

(h) All motor fuel tax receipts shall be paid into the general fund and distributed to the proper accounts in the general fund. Valid motor fuel tax refund claims shall be paid from the highway fuel tax account in the general fund.

(i) *[Repealed, § 35 ch 126 SLA 1994.]*

(j) The proceeds from the tax on motor fuel used in snow vehicles and, unless a tax refund is applied for under AS 43.40.050(a), other internal combustion engines not used in or in conjunction with a motor vehicle licensed to be operated on public ways shall be deposited in a special nonpublic highway use account in the general fund. The legislature may appropriate from this account to the Department of Transportation and Public Facilities for trail staking and shelter construction and maintenance.

(k) The tax on the transfer or consumption of motor fuel provided for in this section does not apply to liquified petroleum gas.

(l) *[Repealed, § 3 ch 182 SLA 1990.]* (§ 48-5-2 ACCLA 1949; am § 1 ch 80 SLA 1951; am § 1 ch 47 SLA 1955; am §§ 1, 2 ch 27 SLA 1957; am § 1 ch 134 SLA 1957; am § 1 art VI title II ch 152 SLA 1957; am § 2 art V title III ch 152 SLA 1957; am § 2 ch 124 SLA 1959; am §§ 1, 2 ch 20 SLA 1960; am § 1 ch 150 SLA 1960; am § 1 ch 110 SLA 1961; am § 1 ch 136 SLA 1961; am §§ 1 — 3 ch 131 SLA 1962; am § 1 ch 130 SLA 1968; am § 10 ch 143 SLA 1968; am §§ 1, 2 ch 216 SLA 1968; am §§ 1 — 3 ch 158 SLA 1970; am § 3 ch 54 SLA 1971; am §§ 1, 2 ch 124 SLA 1971; am §§ 2, 3 ch 125 SLA 1971; am §§ 1 — 3 ch 153 SLA 1972; am § 3 ch 166 SLA 1976; am §§ 1, 2 ch 116 SLA 1977; am § 4 ch 82 SLA 1982;

amended by §§ 1, 2 ch 87 SLA 1983; am § 3 ch 182 SLA 1990; am § 35 ch 126 SLA 1994; am §§ 2, ch 127 SLA 1994; am §§ 2, 4 ch 88 SLA 1997)

**Delayed amendment of subsections (a) and (b).** — Under §§ 3, 5, 6, and 7, ch. 127, SLA 1994, as amended by §§ 3, 5, 10, and 12, ch. 88, SLA 1997, if the Department of Transportation and Public Facilities before January 1, 2000, increases the landing fee charges under AS 02.15.090(a) for the privilege of landing aircraft at rural airports, as that term is defined in 17 AAC 40.796(2), above the amount of the fee in effect on January 1, 1994, subsections (a) and (b) are amended to read as follows: "(a) There is levied a tax of eight cents a gallon on all motor fuel sold or otherwise transferred within the state, except that

"(1) the tax on aviation gasoline is four cents a gallon;

"(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon;

"(3) the tax on all aviation fuel other than gasoline is two and one-half cents a gallon; and

"(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however,

"(A) in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection;

"(B) notwithstanding (A) of this paragraph, through June 30, 2004, the tax on motor fuel sold or otherwise transferred within the state is eight cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection if the motor fuel

"(i) is at least 10 percent alcohol by volume, has been produced from the processing of lignocellulose derived from wood, and was produced in a facility that processes lignocellulose from wood, but this reduction in the rate of tax applies to motor fuel sold or transferred that contains alcohol that was produced only during the first five years of the facility's processing of lignocellulose from wood; or

"(ii) is at least 10 percent alcohol by volume, has been produced from the processing of waste seafood, and was produced in a facility that processes alcohol from waste seafood, but this reduction in the rate of tax applies to motor fuel sold or transferred that contains alcohol that was produced only during the

first five years of the facility's processing of alcohol from waste seafood.

"(b) There is levied a tax of eight cents a gallon on all motor fuel consumed by a user, except that

"(1) the tax on aviation gasoline consumed is four cents a gallon;

"(2) the tax on motor fuel used in and on watercraft of all descriptions is five cents a gallon;

"(3) the tax on all aviation fuel other than gasoline is two and one-half cents a gallon; and

"(4) the tax rate on motor fuel that is blended with alcohol is the same tax rate a gallon as other motor fuel; however,

"(A) in an area and during the months in which fuel containing alcohol is required to be sold, transferred, or used in an effort to attain air quality standards for carbon monoxide as required by federal or state law or regulation, the tax rate on motor fuel that is blended with alcohol is six cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection;

"(B) notwithstanding (A) of this paragraph, through June 30, 2004, the tax on motor fuel consumed by a user within the state is eight cents a gallon less than the tax on other motor fuel not described in (1) — (3) of this subsection if the motor fuel

"(i) is at least 10 percent alcohol by volume, has been produced from the processing of lignocellulose derived from wood, and was produced in a facility that processes lignocellulose from wood, but this reduction in the rate of tax applies to motor fuel consumed by a user that contains alcohol that was produced only during the first five years of the facility's processing of lignocellulose from wood; or

"(ii) is at least 10 percent alcohol by volume, has been produced from the processing of waste seafood, and was produced in a facility that processes alcohol from waste seafood, but this reduction in the rate of tax applies to motor fuel consumed by a user that contains alcohol that was produced only during the first five years of the facility's processing of alcohol from waste seafood."

**Effect of amendments.** — The 1997 amendment, effective July 1, 1997, in subsections (a) and (b), added paragraph (4) and made related stylistic changes.

**Editor's notes.** — Section 9, ch. 88, SLA 1997 repealed ch. 42, SLA 1994. Therefore the different tax rate described in the editor's note in the 1996 volume is not in effect after June 30, 1997.

**Sec. 43.40.015. Exemption from collection of tax.** (a) A dealer who has a reasonable belief at the time of sale or transfer that fuel that is sold or transferred is not to be used as motor fuel need not collect the motor fuel tax. However, as to fuel for which the tax was not collected and for which a certificate of use was not obtained, if the department determines that the fuel was put to a use that is taxable under this chapter, the dealer is liable for the tax and subject to a civil penalty under AS 43.05.220(a) whether or not the dealer's belief that the fuel sold or transferred would not be used as motor fuel was reasonable.

(b) Except for sale or transfer of fuel under (d) of this section, if the motor fuel tax is not collected, the dealer shall obtain a certificate of use from the buyer or transferee at the time of the first sale or transfer of the fuel stating that the fuel that has been or will be purchased or received is not intended for use as motor fuel. The form of the certificate of use shall be prescribed by the department by regulation. The department may not

Differences in tax base may not be prescribed for the same privilege of taxpayers in the same type of business or occupation.

Production and overhead costs are seldom deductible. The legislatures, however, have broad powers in this field. They may be selective by allowing deductions for spoils, swells and discounts to manufacturers of farm products. On the other hand, they may not allow deductions for cost of containers, brokerage, salaries or salesmen and selling expenses.

Alternative tax bases aren't invalid. The applicable base may be determined by the taxpayer's business, limiting his choice in the matter. Estimates derived from the volume of the past year's business are permissible.

The seller may have to include in his tax base sales that are less than the minimum bracket even though he's not permitted to collect these amounts from the buyer.

Gross receipts taxes are usually measured by all receipts from sales. This includes gross receipts from sideline operations such as from food and drink sold at the drug store's lunch counter. Waitress's tips may be included. A gross income tax generally covers all forms of income and the tax on sales is only a part of the tax base. As a rule, there are very few deductions or items excluded from the tax base. Use and compensating taxes are practically equivalent. They're based on the sale or purchase price, or the value of tangible personalty sold. Valuation at the actual purchase price has been allowed. Exclusions from the tax base may be allowed for such items as installation charges and transportation charges separately paid by customers. The statutes are frequently inconsistent. For example, rented tangible personalty from out of state was valued at the out-of-state retail price, while used property brought into the state by the owner was valued at the price it would have brought at the time imported. Depreciation of autos used as demonstrators and otherwise, then sold second-hand, has been both included and excluded from the

tax base. Sales and use taxes have shown divergences in their bases though their rates are the same. For instance, a use tax based upon value may specifically disallow deductions for trade-ins, transportation charges, discounts, or similar items, while allowance may be granted under sales tax law.

#### .94 ADMISSIONS, COVER CHARGES, ETC.

A number of statutes impose tax on admissions to places of amusement or for the use of them. The tax may apply to admissions above a minimum amount such as 10¢. Specified admissions may be exempt, such as admissions to events of nonprofit organizations, school events, plays, or movies. Minimum cover charges are often included in taxable receipts.

#### .95 BAD DEBTS AND LOSSES.

Many statutes and regulations permit or authorize credit or deduction for tax paid on accounts or debts found to be worthless. A condition often imposed for the credit or deduction is that the account or debt be found to be worthless for income tax purposes. There's also the requirement that the tax be repaid if the account or debt is recovered. Statutes sometimes define "sales" and "gross receipts" so as to specifically deny deduction of losses.

#### .96 CASH AND TRADE DISCOUNTS—TRADING STAMPS.

Commonly, discounts are excluded from taxable sales receipts. However, distinctions may be made. Discounts that a retailer grants for the purpose of encouraging prompt payment on an account, also known as early payment discounts, may not be excludable. Discounts after sale may not be allowed as deductions. Discounts representing a reduction in price—trade discount, volume discount or cash and carry discount—are often deductible in computing sales receipts.

## Determination of Sales Price

In general, sales and use taxes are imposed on the total sales price of a taxable sale, without any reduction for costs of labor, raw materials, or other expenses. This rule applies whether the sale is of tangible personal property or of taxable services. The basis of measuring the sales or purchase price on which to calculate sales and use tax varies substantially among the states and often is a disputed subject. The items included in the sales/use tax base usually are specified in detail in the states' statutes and, therefore, generally are narrowly construed by the courts.

In most situations, the maximum amount upon which the tax is computed is the amount of consideration received for the taxable item or service. For example, many states provide that barter transactions are subject to the tax based on the taxable items or services received in the exchange. However, the sales price determination with respect to coupons, rebates, and discounts typically vary with a given state and also among the states. Cash discounts are generally excluded from sales price subject to tax, if paid by the seller rather than a third party and if paid as part of the sales transaction; thus, for example, manufacturer rebates and co-op patronage dividends generally do not reduce sales price subject to tax. In contrast to most states, the Pennsylvania regulations provide that an amount representing a discount allowed for prompt payment that is dependent on an event occurring after the completion of the sale is included in determining the purchase price for sales and use tax purposes, while amounts representing on-the-spot cash discounts, volume discounts, store discounts, wholesaler's or trade discounts, rebates, and store or manufacturer's coupons may be deducted in computing the tax. Trade-in allowances are treated differently from state to state: some states impose sales tax only on the difference between the total sales price and the amount allowed for trade-in, while others impose tax on the total sales price.

Generally, no reduction in sales price is allowed for excise or import taxes paid by the seller; however, the rules of each state must be consulted, since specific taxes may be given special treatment.

Sales price subject to tax generally does not include interest charged for credit, at least if the interest is separately stated. If the debt arising from a credit sale becomes worthless, the seller is usually allowed a reduction in taxable receipts or a tax credit or deduction, depending on the time of worthlessness as well as the reporting period and other specific rules of the state in question. A debt does not necessarily become worthless merely because the property sold on credit is repossessed. On the other hand, property (whether sold on credit or for cash) for which the seller accepts return and refunds the purchase price, thus can-

celling the sale, generally does give rise to a reduction in taxable receipts or a tax credit or deduction, although a particular state may impose time limits or other restrictions on such allowances. (See the chart "Sales/Use Tax Refunds" for a state-by-state listing of whether a taxpayer is permitted a credit, deduction, or refund of overpaid tax in such situations.)

Shipping charges imposed after the sale takes place are often excluded from sales price subject to tax if separately stated. However, fees identified as "shipping and handling" fees typically are taxable even where the fee relates solely to shipping charges. Sellers should always separately state shipping charges as a protective measure, and the rules of the state in question should be consulted to see if this exclusion is available. Labor, service or installations charges, generally are treated similar to shipping charges (i.e., if separately identified on the invoice, many states do not impose sales and use taxes on such charges)

When a transaction involves the provision of nontaxable services in connection with a taxable sale, the charge for the nontaxable services will usually not be subject to tax if separately stated. When a single charge is made for the entire transaction, most states will require a determination of whether: (1) the transaction was primarily a taxable sale with an incidental provision of nontaxable services; or (2) primarily the provision of nontaxable services with an incidental transfer of tangible personal property. If the charge for nontaxable services is separately stated, sales tax will be imposed on the total charge; in the latter case, tax will not be imposed on the single charge but the service provider will be considered the end user of the incidental tangible personal property involved, and sales or use tax will be imposed on the cost of such property.

In the case of sales of taxable services, a few states take the position that the service provider is liable for the collection of sales or use tax from customers on the total itemized charges for performing the taxable service, including any expenses incurred by the service provider's employees, such as mileage charges, hotel expense, and auto rental charges. (See *Helmel Engineering Prods. Inc.*, NY Commissioner of Taxation and Finance, TSB-A-92(15) Sales Tax, Feb. 26, 1992 and Texas Comptroller of Public Accounts, Hearing No. 25,57 issued Sept. 25, 1991.)

The following chart is divided into three parts for ease of presentation. The charts detail various items that are included in the sales price for determination of the sales tax liability and lists items that affect the sales tax price in computing the sales tax liability. These charts highlight the common items that generally are included in the sales price for sales tax purposes. We did not ask the states to list every possible inclusion in sales price; thus, the charts do not exhaust all the possible items that may be required to be included in the sales/use tax base by each state.

R. Mark Williamson  
Foley & Lardner  
Milwaukee, Wisconsin

## Trends

Most responding states require the inclusion of installation charges, transportation charges, sales of repossessed property, and labor or service costs in the sales price base. Some states include these items only if they are not separately stated on the sales invoice.

Very few states allow the sales price to be reduced for other taxes, such as tobacco or federal gas taxes. However, the federal luxury tax, which is imposed on the retail sale or lease of certain luxury items, generally is excluded from gross proceeds when calculating the sales and use tax. Trade-in allowances reduce sales price in most states although many states specify the type of property that this subtraction applies to.

In the case of manufacturers' coupons and rebates, the majority of states require the amount of the coupon or rebate to be included in the sales price base.

April, 11, 1997

Representative Gary L. Davis  
State Capitol  
Juneau, Alaska 99801

**Re: House Bill 239**

Dear Representative Davis:

Thank you for your initiative in introducing House Bill 239 in to the Alaska House of Representatives. Delta Western, as one of the largest independent fuel distributors in the State of Alaska, welcomes the opportunity to comment on this proposed legislation. As we understand it, HB 239 would enable fuel dealers to receive credit from the State of Alaska for fuel taxes paid to the State on fuel sold on credit, but not paid for by purchasers who subsequently declare bankruptcy or render their debt worthless.

House Bill 239 seems to us to be positive, reasonable legislation. To pay fuel taxes on fuel not paid for by the customer adds insult to injury. The fuel dealer is already taking a significant loss on the bad debt, to pay fuel taxes on top of that exacerbates the problem. HB 239 will provide some relief from this significant predicament. Also within the bill, there seems to be adequate provisions for documentation of losses, limiting claims to sales over \$500, and specific time and circumstance limitations.

Therefore, Delta Western wholeheartedly supports the spirit and content of House Bill 239. If there are additional comments or input we can offer to make H.B. 239 more workable, we would be happy to provide them.

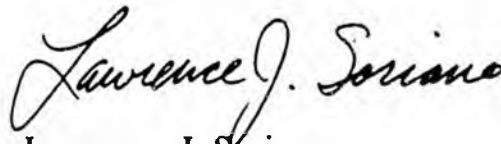
Thank you for calling our attention to this matter. If there are additional questions that arise where we can be of help, please do not

- ANCHORAGE  
220 Center Court, Unit 12  
Anchorage, AK 99518  
Toll-Free: (800) 478-2688  
Tel: (907) 563-5558  
Fax: (907) 563-7672
- DILLINGHAM  
P.O. Box 1209  
Dillingham, AK 99576  
Tel: (907) 842-5441  
Fax: (907) 842-2697
- DUTCH HARBOR  
P.O. Box 920408  
Dutch Harbor, AK 99692  
Tel: (907) 581-1284  
Fax: (907) 581-1688
- HAINES  
P.O. Box 1369  
Haines, AK 99827  
Tel: (907) 766-3190  
Fax: (907) 766-3196
- JUNEAU  
120 Mt. Roberts  
Juneau, AK 99801  
Tel: (907) 586-2800  
Fax: (907) 586-1226
- NAKNEK  
P.O. Box 209  
Naknek, AK 99633  
Tel: (907) 246-6174  
Fax: (907) 246-6843
- SEATTLE (Corporate)  
4601 Shilshole Ave. NW  
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Seattle, WA 98107  
Toll-Free: (800) 528-0191  
Tel: (206) 782-6977  
Fax: (206) 784-8348
- SEATTLE (Sales)  
4511 Shilshole Ave. NW  
P.O. Box 17701  
Seattle, WA 98107  
Toll-Free: (800) 782-2213  
Tel: (206) 781-0100  
Fax: (206) 781-0406  
Fuel Dock: (206) 282-1557
- SELDOVIA  
319 Main Street, Drawer C  
Seldovia, AK 99663  
Tel: (907) 234-7622  
Fax: (907) 234-7442
- WRANGELL  
P.O. Box 50  
Wrangell, AK 99929  
Tel: (907) 874-2388  
Fax: (907) 874-3977
- YAKUTAT  
P.O. Box 29  
Yakutat, AK 99689  
Tel: (907) 784-3311  
Fax: (907) 784-3409

Representative Davis  
page 2

hesitate to call me at the above number or contact Ray Gillespie who represents us in Juneau at (907) 463-3375.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence J. Soriano". The signature is written in dark ink and is positioned above the printed name and title.

Lawrence J. Soriano  
Executive Vice President

cc: Ray Gillespie, Juneau



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Seattle, Washington 98107

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Fax (208) 781-2486

Lawrence J. Soriano

February 6, 1998

Ray Gillespie  
Gillespie & Associates  
318 Fourth Ave.  
Juneau, Alaska 99801

**Re: House Bill 239**

Dear Ray:

Delta Western Fuels, as one of the largest independent fuel distributors in the State of Alaska, welcomes the opportunity to comment on proposed legislation in House Bill 239. As we understand it, HB 239 would enable Alaska fuel distributors and dealers to receive credit on motor fuels taxes from the State of Alaska for fuel taxes paid to the State on fuel sold on credit, but not paid for by purchasers who subsequently declare bankruptcy or render their debt worthless.

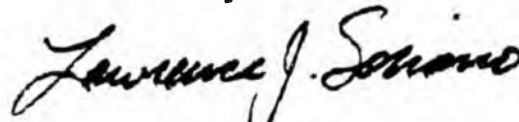
House Bill 239 seems to us to be positive, reasonable legislation. To pay fuel taxes on fuel not paid for by the customer adds insult to injury. The fuel dealer is already taking a significant loss on the bad debt, to pay fuel taxes on top of that exacerbates a serious problem. HB 239 will provide some relief from this significant predicament. Also within the bill, there seems to be adequate provisions for documentation of losses, limiting claims to sales over \$500, and specific time and circumstance limitations.

Therefore, Delta Western wholeheartedly supports the spirit and content of House Bill 239. If there are additional comments or input we can offer to make HB 239 more workable, we would be happy to provide them.

page 2

Thank you for calling our attention to this matter. If there are additional questions that arise where we can be of help, please do not hesitate to call me at the above number.

Sincerely,



Lawrence J. Soriano  
Executive Vice President  
Delta Western Fuels

## PETRO MARINE SERVICES

Petroleum Marketing to the Marine Industry

February 24, 1998

The Honorable Gary L. Davis  
Alaska State Legislature  
State Capitol  
Juneau, AK 99811

Re: House Bill No. 239

Dear Representative Davis,

On behalf of Petro Marine Services, I want to thank you for taking the initiative in sponsoring House Bill No. 239. Petro Marine Services is strongly supportive of this legislation. This bill would allow fuel dealers to receive a nonrefundable credit for fuel taxes paid to the state on fuel sold on credit, but ultimately not paid by purchasers who subsequently declare bankruptcy or render their debt worthless.

Alaska's motor fuel tax is an excise tax designed ultimately to be paid by the consumer or user of the fuel. For administrative reasons, state law requires the tax to be collected and paid by the motor fuel dealer at the time the fuel is sold or transferred. This transaction usually occurs at the wholesale level with businesses that subsequently resell the fuel to the consumer or user of the fuel.

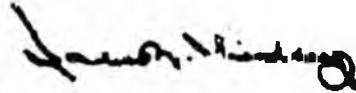
In commercial transactions of this nature, it is customary and typical to extend reasonable credit terms which may result in a deferral or delay in the collection of both the debt and the motor fuel tax by the dealer. In some cases, the debt may become wholly or partially worthless because of a bankruptcy filing or other reasons.

House Bill No. 239 would allow motor fuel dealers in these cases to receive a nonrefundable credit in an amount equal to the tax previously remitted to the state. The credit would be applied against subsequent tax liabilities only, and could only be taken for sales with a total tax liability of \$500 or more. Please note that a conforming amendment is needed to clarify that the proposed floor of \$500 should apply to one or more transactions in the aggregate per business entity.

This legislation specifies that dealers may only apply for a bad debt credit by filing written proof of the bankruptcy petition, or following reporting the debt as worthless or partially worthless on the dealer's federal income tax return. It is our understanding that many states and local governments similarly authorize credits or deductions for taxes paid on accounts that are later found to be worthless.

As a major petroleum distributor in Alaska, Petro Marine Services believes House Bill No. 239 proposes an adjustment to current law which is more fair and equitable to all parties. Thank you for this opportunity to comment. If there are any questions, please contact Mark Hickey who represents us in Juneau. He can be reached at 586-2263.

Sincerely,



Dale R. Lindsey, President & CEO  
HARBOR ENTERPRISES, INC.

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**PETRO MARINE SERVICES**

Petroleum Marketing to the Marine Industry



# House Finance Committee

DATE: Feb 25, 98

PLACE: Cap 519

SUBJECT OF MEETING:  
 HB 144  
 HB 239  
 HB 386

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?	WHAT SUBJECT/ WHICH BILL?
RANDY SIMMONS	AIDEA	480 W. TUDOR AVE	99503	243-2140	269-3000	(Y) N	HB 386
KEITH LAUFER	AIDEA	" "	"	345-9090	"	(Y) N	HB 386
PAUL FUHS	NOME			723-8019		(Y) N	HB 386
MARK HECKEY	PETRO MARINE SERVICES	211 4TH ST. # 308 JUNEAU, AK	99801	789-9613	2263 586-97	(Y) N	HB 239
Bob Bartholomew	Revenue				465-4773	(Y) N	HB 239
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	
						Y N	