

ALASKA LEGISLATURE

1969

HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000

SENATE BILL 59/HOUSE BILL 187
CHANGE IN CERTIFICATE OF NEED LAW

- **Background:** Alaska has had a certificate of need law since 1976. The Original intent of the law was to ensure the development of an accessible, cost-effective health care system with quality services. It was designed to promote good planning by requiring applicants to justify the need and document how the project fits in with other health care facilities and initiatives. Local projects are assessed from a statewide, comprehensive, inclusive perspective rather than from a local individual community or facility perspective.
- **The Problem:** \$120 million was spent for long term care services to approximately 5,000 Alaskans in 1996, with approximately two thirds (\$80 million) coming from State General Fund expenditures. Conservative assumptions about population and inflation project costs for services at over \$215 million by the year 2015, moderate assumptions indicate a projection of \$545 million, and high projections indicate costs of \$ 1 billion in 2015. Unless there is a change in the way services are offered, there will be such a demand for long-term care services that many consumers could be denied needed services due to the cost.
- In order to meet the projected demand for services, a better mix of long-term care services needs to be promoted. Where appropriate, less costly home and community based long-term care services need to be expanded rather than construction of expensive new nursing home beds. Also, seniors have indicated they want to have a choice to stay at home as long as possible.
- **A Solution:** In 1996, a moratorium was passed on the construction of new nursing beds in order to allow time for the home and community based alternatives to grow. Since the moratorium, the number of individuals served in home and community based setting increased from an equivalent of 140 clients to 389 clients through Older Alaskan's waivers. Waiver clients must meet the same criteria for nursing home admission as nursing home residents. Senior utilization of nursing homes during that time dropped from an equivalent of 558 seniors to 492 seniors, a reduction of 23,360 patient days. On average, ten new nursing home beds will increase the Medicaid budget by about \$1 million annually
- Now that the moratorium has expired, there needs to be a mechanism to control long term care costs and encourage the growth of home and community based services. Changes in the certificate law will help control costs, promote planning, and create a better mix of services.
- Currently the Department of Health and Social Services reviews all nursing bed projects that cost over \$1 million. There is a loophole that allows a facility to add new nursing beds if they can be built for under \$1 million. Most conversions of beds from acute to long term care cost under \$1 million. Senate Bill 59 and House Bill 187 amend the certificate of need law to require all conversions of acute care or other beds to nursing beds to have a CON review.
- The certificate of need law also needs a new section added that allows broader review analysis for nursing homes and nursing home beds. Decisions are currently limited to accessibility and quality. This new section would allow decisions to be made based on additional standards such as need, financial feasibility, and availability of alternatives such as home and community based services.
- The list of criteria and standards would be changed to be more specific and better reflect the recommendations of the Legislative Working Group on Long-Term Care.

The Need for a Fiscal Note on SB 59/HB 187

David Pierce, Certificate of Need Coordinator, April 19, 1999

In order to implement SB 59/HB 187, the Department will have to develop review standards that will include the impact of home and community based services on reducing the need for new nursing home beds. The problem is quite similar to downsizing API. In that process, several studies were developed to determine how many beds would be needed and the effect that various community based services would have in reducing institutional bed need. In this case, we need to determine:

- Boundaries of the regional service areas based on patient origination data;
- Long-term care utilization by region (how many seniors need long-term care services);
- The senior population growth in these regions; and
- What percentage of the seniors could be served appropriately at home, in assisted living, or in another home or community based setting.

Currently, the nursing bed need methodology is flawed because it is based on historical utilization. The system is changing from primarily an inpatient system to an emphasis on home and community based services, and therefore, a new method of assessing need must be developed. The new method must take into account the number of persons who can be served at home or in assisted living facilities instead of in nursing homes. Development of new standards will require gathering utilization data on assisted living, home health, adult day care, hospice, residential home use, and other senior services to determine the impact these services have on keeping seniors out of nursing homes.

The Department has checked with several private firms and they confirm that the requested funds of \$26,500 are sufficient to develop a standard. A consultant must be hired to complete this task because the State does not currently have staff to complete the task. The only option for the State staff to complete this research would be to place a three month moratorium on all certificate of need applications to allow time to complete the research and develop the home and community based component of the standard for long-term care reviews.

The Urban institute states that "A study of the change in nursing home bed supply between 1981 and 1993 found that CON programs and moratoria on new construction significantly reduced the rate of increase in the number of nursing home beds." However, the same article states that "CON programs often do not have the technical rationale to find a lack of "need" for more nursing home beds..." and "CON programs are usually required to judge only need and to ignore state budgetary concerns."¹

¹ Wiener, Stevenson, & Goldenson. Controlling the Supply of Long-Term Care Providers at the State Level. The Urban Institute. Occasional Paper Number 22. December 1998. Page 3.



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MEMORANDUM

To: House and Senate Finance Committee Members

From: Rick Solie
Director of Community Relations & Planning
Fairbanks Memorial Hospital/Denali Center

Date: April 27, 1999

Subject: HB 187/ SB 59 - Certificate of Need for Long-Term Care Facilities
Opposition to an amendment related to imaging services and day surgery facilities

SB 59 and HB 187 are the result of the Long Term Care Task Force efforts to modify the Certificate of Need (CON) program governing the expansion of nursing homes. We support this legislation and appreciate the Legislature's attention to this important area of health care.

Recently, an amendment was offered to HB 187 in the House HESS Committee (which failed) that would exempt imaging services and day (ambulatory) surgery facilities from the current CON requirements of the Department of Health and Social Services. This exclusion is both unrelated to the Task Force recommendation and would create a piece-meal approach to modifying the CON laws. **We oppose this amendment.**

The Alaska State Hospital and Nursing Home Association (ASHNHA) has recognized the need for clarification of the CON laws to create a level playing field between health care providers. We are willing to work with the Legislature to develop some appropriate changes and have identified the need to do so in our 1999 work plan. However, this legislation is not the appropriate vehicle.

In Fairbanks, there are currently three applicants, including Fairbanks Memorial Hospital, who have requested a CON to provide ambulatory surgery facilities. The current process will require a Departmental review of the application(s), public hearings and a decision by the Commissioner. Approval of this exemption would circumvent the CON process currently underway in Fairbanks.

Quality and access are important elements of our health delivery system and we ask that you not consider this exclusion without a thorough examination of the issues related to ambulatory services and the state's role in oversight.

Thank you for your consideration.

cc: Interior Legislative Delegation
Commissioner Karen Perdue

Attachments: Amendment to HB 187

LTC **TASK FORCE**
Long-Term Care Task Force



FINAL REPORT
January 1999

Representative Con Bunde, Co-chairman
Senator Gary Wilken, Co-chairman

State Capitol Building
Juneau, Alaska 99801-1182

CERTIFICATE OF NEED

RECOMMENDATION

21

The Task Force recommends that legislation be drafted and introduced to adopt the nursing home certificate of need recommendations developed by the *Legislative Working Group on Long-Term Care (1997)*.

“The certificate of need review process is required of any health facility planning to spend a million dollars or more for construction.”

Under AS 18.07, the Department of Health and Social Services administers the Certificate of Need Program. This program was created as a tool to control health care costs and prevent unnecessary or duplicative facilities or services. A certificate of need is required of any health facility planning to spend one million or more for construction, expansion or remodeling.

The certificate of need review is initiated when a health care facility submits a letter of intent to the Department of Health and Social Services. This letter of intent provides the project description, estimated cost, and starting and completion dates for the project. Based on the letter of intent, the department determines whether a detailed certificate of need application is needed. Once the application is received and declared complete, department staff analyzes the request and makes a recommendation to the Commissioner of Health and Social Services, who decides to approve or deny the application. The decision to grant or deny a certificate of need may be appealed.

In June 1996, HB 528 was signed into law (Chapter 84, SLA 96). This placed a two-year moratorium on the issuance of certificates of need or licenses for any new nursing home beds in Alaska effectively preventing any nursing home beds from being added until the moratorium expired. This two-year moratorium expired May 1, 1998. The law was passed due to concerns over the potential rapid growth of nursing home beds that became imminent as the result of the planned addition of 147 new nursing beds costing \$11 million annually. The moratorium allowed time to develop alternatives to nursing home beds and assess what could be done to promote cost containment.⁴⁶

The six-member working group established under HB 528 thoroughly analyzed the current procedure to grant certificates of need to long-term care health facilities and determined several weaknesses in existing law. As currently written, AS 18.07.041 requires the Department of Health and Social Services to grant a certificate of need if “the availability and quality of existing health care resources or the

accessibility to those resources is less than the current or projected requirement for health services to maintain the good health of citizens of this state." In other words, the Department must grant a certificate of need for new construction, expansion or remodeling of a nursing home facility if the service is not available or sufficiently accessible, and the applicant can demonstrate that the proposed service will be provided in a quality manner.

In its report the *Legislative Working Group* stated the following:

While availability, accessibility and quality are important, they are insufficient for assessing a current or projected requirement for health services. Meeting a current requirement does not mean that there is a long-term need for the service or facility or there will be the resources necessary to sustain the service or facility throughout its life cycle. Similarly, meeting a current or projected need does not mean that it is the most cost-effective method for doing so; nor does it mean that the State, facing declining resources, should encourage and support a low priority service in the face of more pressing priorities. The certificate of need program requires more explicit statutory and regulatory definition in these areas to better control costs and better target the health care priorities of Alaskans.⁴⁷

Currently there is a potential in Alaska for many new nursing beds to be built and, if built, these beds will cost the state a great deal. Using a medium growth projection, it is estimated that the senior population in Alaska will grow from 31,398 in 1997 to 80,927 by 2015.⁴⁸ In FY97, the Alaska Medicaid program spent \$43.8 million for 720 licensed nursing home beds. If the need for beds remains constant in the future, the number of beds could grow to 1,861 by 2015, a 250 percent growth at the annual cost to Medicaid of an additional \$109.5 million. "Proposed projects need to be compared against feasible alternatives to determine if the proposal is the most cost effective way of achieving comparable results."⁴⁹

Under the legislation proposed by the *Legislative Working Group on Long-Term Care*, new nursing home projects will need to demonstrate the cost-effectiveness of each request. Proposed projects will be compared against feasible alternatives to determine if the proposal is the most effective way to achieve comparable results. The Task Force recognizes that this issue needs more discussion and recommends that legislation be introduced for further consideration. (Please see Appendix B, page 69, for further detail. ❖

"The Legislative Working Group states that the certificate of need program requires more explicit statutory definition."

"Under the legislation, new nursing home projects will need to demonstrate cost effectiveness."



Alaska Commission on Aging

Resolution 99-5

In support of SB 59: An act relating to the certificate of need program for nursing care facilities and other facilities

Whereas Alaska's rapidly growing statewide senior citizen community is part of a national and international trend of increased longevity due to better nutrition, health care, and increased standards of living, and

Whereas the statewide community of older Alaskans age 65+ is projected to grow from 22,095 in 1990 to 80,927 by 2015, and

Whereas the availability of appropriate long-term care is vital to the well-being of disabled, chronically ill and frail Alaskans of all ages now, and in the future, and

Whereas developing the capacity to meet present and projected long-term care needs challenges us to plan strategically and allocate long-term care resources accordingly; and

Whereas SB 59 will amend Alaska's Certificate of Need Program to improve the State's ability to assure that future long-term care development is strategic, responsive to public need and preference, and cost-effective, and

Whereas the Legislative Long Term Task Force Report of January, 1999, recommended the introduction of this legislation in its Recommendation #21;

Now therefore the Alaska Commission on Aging strongly encourages the Twenty-First Alaska Legislature to pass SB 59.

Adopted this 9th day of March, 1999.

A handwritten signature in cursive script that reads "Alaire E. Stanton".

Alaire Stanton
Chair

Certificate of Need Requirements

State of Alaska

Issue:

The Certificate of Need process was established by the federal government to control spending/costs which potentially could deflate available health care dollars. The premise assumed health care costs would be controlled by eliminating duplicative and costly construction as well as multiplicity of equipment acquisition. In theory, the Certificate of Need process assumes extensive costs are passed on to the public.

Historical Prospective:

"The federal government's first major foray into health planning was the Hospital Survey and Construction Act (the Hill-Burton Act), passed in 1946, which distributed federal health care funds according to population and need (42 U.S.C. 291). In 1966, Congress enacted the Comprehensive Health Planning and Public Health Services Amendments, which provided funding for local and state health planning (42 U.S.C. 246). These acts were replaced in 1974 by the Planning Act (42 U.S.C. 300k-300t), which was repealed effective January 1, 1987 (Pub.L. 99-660, 701) but which nonetheless, continues to play a significant role in the various health planning programs administered by the states. The Social Security Act Amendments of 1972 contain health planning requirements that are still in effect (42 U.S.C. 1320). These Amendments establish a review process for capital reimbursement purposes (known as "Section 1122 review)...require that certain institutional Medicare providers engage in institutional health planning and budgeting (42 U.S.C. 1395)."

(HEALTH CARE LAW A Practical Guide, Macdonald, Michael, Meyer, Kathryn, Essig, Beth, Matthew Bender, NY)

Essentially, the federal legislation established the framework within which participating states must regulate health resources. The Certificate of Need is perhaps one of the most significant aspects of the health planning laws. Of interesting note regarding variances in state CON policies, Massachusetts dramatically limited the number of projects requiring CON review and raised its expenditure limit to seven million dollars and excluded many types of equipment purchases. A majority of other states have eliminated the CON process all together.

Points:

Contrary to the purpose of the limitations imposed by the CON, independent free-standing ambulatory surgery centers are specifically designed to reduce costly overhead and improve patient access to quality of care for specific surgical services.

The Certificate of Need requirement actually works opposite the intended purpose. Rather than reducing costs, it enhances the monopolistic powers of a singly empowered agency. Most with little incentive to control costs, certified providers (often sole hospital providers within rural communities) actually operate with impunity. To highlight the lessons learned by others, all but six states nationwide have eliminated the requirement to obtain a Certificate of Need.

Ironically, the costs of the CON review process both in dollars and in time, drive the expenses of facility development higher than the cost would be without the certification process. The funds expended in participating in the CON process would be best utilized in providing for the patients quality care in a comfortable, patient friendly center than debating the Need.

In the case of Fairbanks, the State found "need" for 2 additional OR suites within the Fairbanks Community in 1995. Due to strong opposition to the granting

of the CON to an independent physician, the sole provider of outpatient surgical services solicited approval citing utilization need and was granted an additional designated surgical suite. The result of this process left the monopolistic facility control structure intact.

The \$1,000,000.00 threshold that requires a Certificate of Need has long ago been overcome by inflation, technological advancements and regulatory agency requirements. The low threshold has placed an unreasonable restrictive barrier to developing a quality health care independent free standing surgical center without cumbersome and costly restrictions. In current times when minimal construction costs to meet state and federal regulatory mandates drives cost to exceed \$1,000,000.00 there are no options other than a costly application process to obtain a CON. That effort and money allocation should be more appropriately committed to funding the development of the facility, not to provide elaborate documentation to satisfy purely administrative requirements.

Advocates for retention of the CON process argue that competition will dramatically alter revenue flows. They contend that across the board expenses which Hospital Outpatient Surgery fees augment will no longer be available to hospitals benevolently providing care for the uninsured, altering the availability of uncompensated care. These proponents also argue that competition for market revenue will hinder their funding for advanced medical technology within the community. In reality, competition spurs efficiencies that would not be realized in a non competitive environment.

Today's healthcare consumers are economy minded...both patients and payors. Demand for and utilization of independent free standing surgical center facilities has increased dramatically due to spiraling costs of providing medical services as well as the patient's new attitude toward "choice" and satisfaction in healthcare. National forecasts predict this trend will continue to escalate. In a monopolistic healthcare environment, it is easy to become complacent and fail to

note the outward migration of patients to facilities offering "choice" outside of the rural communities or even the state.

The design of the Certificate of Need process is cumbersome and prohibitive to cost efficiencies, particularly in Interior Alaska. Timing elements of the CON generate artificial barriers due to short construction seasons which drive up the cost related the development and construction of an ambulatory center.

The CON further limits free enterprise and independence so valued by Alaskans by defining requirements which may apply differently under different sets of circumstances leading to extensive monies spent searching statutes or seeking exemptions. Many state legislatures, all but 6 US states, have recognized these problems and have chosen to drop the statutes or revise them dramatically to open the path to competition and meet the economic and personal needs of the patients.

The majority of healthcare services are becoming decentralized. Conceptually sole facility providers such as hospitals promote their position as "the Community Solution". The need to maintain high quality "excellence" in healthcare under severe economic pressure and regulatory mandates begs for alternative facilities and competition as the "Community Solution".

The State of Alaska needs to plan for the changes in the healthcare community and market and move forward with vision by identifying the opportunities which will focus on substantial cost savings to patients. The facility charge of an independent free-standing surgical center is "global"...all inclusive covering all facility services other than Anesthesia and physician professional fees. Without focus on a new strategy regarding the CON, the quality of healthcare in our communities will generally become stagnate.

The political issues associated with the CON including fears of loss revenue, market share mix change, etc. often lead to conflict and sabotage within the community as demonstrated historically throughout the nation.

“Surgical technology is continuing to advance with wider application of fiber optic and other advanced equipment suggesting in the future more care will be provided outside of the hospital to control efficiencies and cost issues. New modalities and less invasive procedures focus more on outpatient facilities rather than inpatient care.” The design of expanded facility operations for Ambulatory Surgery should not duplicate the design of the inpatient surgical suite which leads to a high degree of inefficiency and potentially higher risk exposure for the patient. Often this is the proposed plan from existing facilities.

(Ambulatory Care Management, 3rd Edition, Austin Ross, Stephen J. Williams, Ernest Pavlock, Delmar Publishers, Boston, 1998, p14.)

In 1995, the State of Alaska determined “Need” within the Fairbanks community for additional “outpatient surgery” and granted a CON for two additional OR suites to be constructed in Fairbanks at an Independent Free Standing Ambulatory Surgery Center site. Initially the sole franchise hospital argued against the “need”. However, revised its position and was awarded an additional suite as well. The outcome of this CON event enabled the sole provider to implement an additional surgical space but did not result in the implementation of an independent free standing outpatient surgical center which the sole provider still opposes. An independent free standing outpatient surgical center could and would be built this year but for the barrier of the state CON process.

The free standing ambulatory surgery center is not new to the healthcare environment. According to the Ambulatory Surgery Center Survey, (Federated Ambulatory Surgery Association, April 1997), 62% of ASCs have been in existence

since before 1991 and have remained economically sound even in highly competitive areas.

The federal government is continuing to support the development of ASC facilities and the shift to "outpatient surgery" by proposing the Ambulatory Surgery Centers now be recognized as health care suppliers rather than a provider. The Health Care Financing Administration also recommends the ASC must be separate and distinguishable from any entity or type of facility. (Legislative Update, Federated Ambulatory Surgery Association, Robert Wates, Esq.)

The monopolistic entity in control of outpatient services and surgery within a community often claims loss of revenue stream impacts its direct ability to cross subsidize other core services. Lutheran Health Systems recently announced the national acquisition of Samaritan Health Systems. According to the announcement published in Modern Healthcare magazine January 11, 1999 issue page 49, the new acquisition will create a new system which spans 32 hospitals, 14 states and projects an annual revenue of 1.6 billion dollars. Such a large entity does not need the monopoly afforded it by the CON process in Alaska.

According to Robert C. Williams, President-elect of the Federated Ambulatory Surgery Association, developers of Independent Free Standing Ambulatory Surgery Centers throughout the nation experience on going challenges from established hospital organizations, particularly those that are the sole provider in the community.

The arguments of fear of competition and decreased revenues and therefore the inability to provide needed charitable services "are the same that were heard in 1972 when the first out patient surgical center was developed in Arizona".

(American Academy of Orthopaedic Surgery, February 1999)

In many locations, the challenge of competition has resulted in hospitals or sole entities becoming more accountable, efficient, and leads to cost effectiveness thus saving healthcare dollars. Additional recent studies conducted by the Federated Ambulatory Surgery Association provide data to confirm more than 50% of all surgery is now performed and reimbursed on an outpatient "ambulatory" basis.

Conclusion:

Eliminating the CON for Ambulatory Surgical Centers within the state of Alaska represents progressive recognition of the handicap for cost effective healthcare delivery resulting from its existence and would allow greater patient access to out patient surgery. This would represent a savings to all providers. The potential of new facilities will further enhance the job market and attract highly skilled professionals into local markets. This global result is truly the "community solution" and a win - win position for all citizens of the State of Alaska.

HB

187

SFIN

FILE

RECORDED OUT OF 5/15/99

SENATE FINANCE COMMITTEE REPORT

DATE: 5/10/99

FURTHER:

DATE TURNED IN TO OFFICE: 5/15/99

Finance Committee considered CS FOR HOUSE BILL NO. 187(FIN)
CERTIFICATES OF NEED FOR HEALTH FACILITY

and recommends:

- be replaced with _____ CS _____
- adopt previous _____ CS _____
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✓				
Co-Chair: <i>[Signature]</i>	✓				
Co-Chair: <i>[Signature]</i>					

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

Department	Date	Zero	Fiscal
DHSS / Admin Services	4/26/99		26.5

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

5/15/99 No: 1
Bill Version: HB 187
(H) Publish Date: 4/26/99

Revision Date: _____
Title: An Act relating to certificates of need for nursing home beds and providing an effective date
Sponsor: House HESS
Requestor: _____

Dept. Affected: Health and Social Services
BRU: Administrative Services
Component: Health Planning and Facilities Management
COMPONENT SERIAL NO. 2020
See also (SN#): _____

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY00	FY01	FY02	FY03	FY04	FY05
PERSONAL SERVICES	0.0	0.0	0.0	0.0	0.0	0.0
TRAVEL	1.0	0.0	0.0	0.0	0.0	0.0
CC ,TRACTUAL	25.0	0.0	0.0	0.0	0.0	0.0
SUPPLIES	0.5	0.0	0.0	0.0	0.0	0.0
EQUIPMENT	0.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES	0.0	0.0	0.0	0.0	0.0	0.0
GRANTS, CLAIMS	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS						
TOTAL OPERATING	26.5	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
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CHANGES IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts	13.3	0.0	0.0	0.0	0.0	0.0
1003 GF Match	13.3	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (please specify)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	26.5	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME	none	none	none	none	none	none
PART-TIME	none	none	none	none	none	none
TEMPORARY	none	none	none	none	none	none

Estimate of any current year (FY99) cost: \$0.0

ANALYSIS: (Attach a separate page if necessary)

Chapter 84, SLA 96 placed a moratorium on nursing home beds and established a Legislative Working Group on Long-Term Care. One recommendation of the Legislative Working Group was the importance of developing a State plan which outlines the desired long-term care system in a comprehensive manner. The Division of Senior Services already produces a comprehensive long-term care plan but it does not include nursing home beds. New standards for the approval of new nursing home beds need to be developed and a plan section written. Certificate of need applicants would be required to demonstrate how well their proposal fits into the standards and the plan to be approved. The fiscal note is for the cost of hiring a consultant, travel and supplies to research and develop new State nursing home review standards. Standards would take into consideration the existing and desired system, trends in care and nursing home use rates in Alaska; the effect of home health, assisted living and adult day care on the need for new nursing home beds; barriers to the development and use of home and community based services; gaps in services; and would develop a model that can be used to estimate the future need for nursing beds, and alternatives to institutional care such as assisted living. The standards would be used to review projects and develop a plan section that could be added as an appendix to the annual Division of Senior Services plan. This bill is a cost saving measure designed to avoid potential future costs to the state general fund of up to \$9.3 million annually due to construction of up to 234 new nursing home beds in the next 5 to 15 years.

Prepared by: Janet Clarke
Division: Administrative Services

Phone: 465-1630
Date: 04/15/99

Approved by Commissioner: Karen Perdue, Commissioner
Agency: Department of Health & Social Services

Date: 4/16/99

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Alaska State Legislature



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Juneau AK
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Long-Term Care Task Force

House Bill No. 187

An Act relating to the certificate of need program for nursing care facilities and other facilities; and providing for an effective date.

Alaska has had a Certificate of Need (CON) law since 1976. The purpose of this law is to insure the development of an accessible, cost-effective health care system with quality service. Currently the Department of Health and Social Services reviews all nursing home expansion projects that cost over \$1 million. However, the review of each request is limited to the factors of *accessibility* and *quality*, that is whether the service is currently available and can be provided in a quality manner.

Under this proposed legislation, a new standard of need is adopted for nursing home certificate of need requests. The revised standard allows decisions to be made based on additional criteria such as need, financial feasibility and availability of alternatives. Under this change, a new nursing home project will need to demonstrate the cost-effectiveness of each request and the appropriateness of the service.

The Department of Health and Social Services estimates that on average, ten new nursing home beds increase the Medicaid budget by about \$1 million annually. The decision to expand existing nursing home facilities has long-term implications to both the state treasury and our seniors and persons with disabilities. This legislation will give the Department of Health and Social Services the needed tools in which to make a more informed decision.

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110601
JUNEAU, ALASKA 99811-0601
PHONE: (907) 465-3030
FAX: (907) 465-3068

May 14, 1999

Honorable Gary Wilken
Alaska State Senate
State Capitol Room 514
Juneau, AK 99811

Dear Senator Wilken,

I would like to take this opportunity to reiterate the importance of enacting this session House Bill 187 relating to certificates of need for nursing homes.

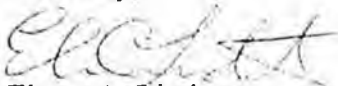
Under the proposed long-range fiscal plans of both the House and Senate little or no growth in total expenditures for formula programs is projected for the foreseeable future. Providing the Commissioner of the Department of Health and Social Services with more stringent statutory criteria to review applications for additional nursing home beds is a key element of any strategy to contain costs in the Medicaid program.

As you know, for every ten additional nursing home beds the Medicaid program will incur approximately \$1 million in additional unavoidable annual costs. Based on interest expressed by communities over the past three years, the department believes there is the potential for significant growth in nursing home beds in the future.

Today, however, there are no new certificate of need applications or letters of intent to submit applications pending. The Alaska State Hospital and Nursing Home Association supports House Bill 187 at this time. The House of Representatives has passed the bill by a vote of thirty-nine yeas and zero nays. I am unaware of any opposition to the bill. I believe this support will evaporate the moment a letter of intent or certificate of need application is submitted however. Therefore I believe that failure to pass HB 187 this session would be extremely unfortunate—a missed opportunity to enact meaningful cost-containment legislation.

Again, thank you for your support of House Bill 187.

Sincerely,



Elmer A. Lindstrom
Special Assistant to the Commissioner

CC: Pat Pourchot, Legislative Director
Office of the Governor

LTC **TASK FORCE**
Long-Term Care Task Force



FINAL REPORT
January 1999

Representative Con Bunde, Co-chairman
Senator Gary Wilken, Co-chairman

State Capitol Building
Juneau, Alaska 99801-1182

CERTIFICATE OF NEED

RECOMMENDATION

21

The Task Force recommends that legislation be drafted and introduced to adopt the nursing home certificate of need recommendations developed by the *Legislative Working Group on Long-Term Care (1997)*.

“The certificate of need review process is required of any health facility planning to spend a million dollars or more for construction.”

Under AS 18.07, the Department of Health and Social Services administers the Certificate of Need Program. This program was created as a tool to control health care costs and prevent unnecessary or duplicative facilities or services. A certificate of need is required of any health facility planning to spend one million or more for construction, expansion or remodeling.

The certificate of need review is initiated when a health care facility submits a letter of intent to the Department of Health and Social Services. This letter of intent provides the project description, estimated cost, and starting and completion dates for the project. Based on the letter of intent, the department determines whether a detailed certificate of need application is needed. Once the application is received and declared complete, department staff analyzes the request and makes a recommendation to the Commissioner of Health and Social Services, who decides to approve or deny the application. The decision to grant or deny a certificate of need may be appealed.

In June 1996, HB 528 was signed into law (Chapter 84, SLA 96). This placed a two-year moratorium on the issuance of certificates of need or licenses for any new nursing home beds in Alaska effectively preventing any nursing home beds from being added until the moratorium expired. This two-year moratorium expired May 1, 1998. The law was passed due to concerns over the potential rapid growth of nursing home beds that became imminent as the result of the planned addition of 147 new nursing beds costing \$11 million annually. The moratorium allowed time to develop alternatives to nursing home beds and assess what could be done to promote cost containment.⁴⁶

The six-member working group established under HB 528 thoroughly analyzed the current procedure to grant certificates of need to long-term care health facilities and determined several weaknesses in existing law. As currently written, AS 18.07.041 requires the Department of Health and Social Services to grant a certificate of need if “the availability and quality of existing health care resources or the

accessibility to those resources is less than the current or projected requirement for health services to maintain the good health of citizens of this state." In other words, the Department must grant a certificate of need for new construction, expansion or remodeling of a nursing home facility if the service is not available or sufficiently accessible, and the applicant can demonstrate that the proposed service will be provided in a quality manner.

In its report the *Legislative Working Group* stated the following:

While availability, accessibility and quality are important, they are insufficient for assessing a current or projected requirement for health services. Meeting a current requirement does not mean that there is a long-term need for the service or facility or there will be the resources necessary to sustain the service or facility throughout its life cycle. Similarly, meeting a current or projected need does not mean that it is the most cost-effective method for doing so; nor does it mean that the State, facing declining resources, should encourage and support a low priority service in the face of more pressing priorities. The certificate of need program requires more explicit statutory and regulatory definition in these areas to better control costs and better target the health care priorities of Alaskans.⁴⁷

"The Legislative Working Group states that the certificate of need program requires more explicit statutory definition."

Currently there is a potential in Alaska for many new nursing beds to be built and, if built, these beds will cost the state a great deal. Using a medium growth projection, it is estimated that the senior population in Alaska will grow from 31,398 in 1997 to 80,927 by 2015.⁴⁸ In FY97, the Alaska Medicaid program spent \$43.8 million for 720 licensed nursing home beds. If the need for beds remains constant in the future, the number of beds could grow to 1,861 by 2015, a 250 percent growth at the annual cost to Medicaid of an additional \$109.5 million. "Proposed projects need to be compared against feasible alternatives to determine if the proposal is the most cost effective way of achieving comparable results."⁴⁹

"Under the legislation, new nursing home projects will need to demonstrate cost effectiveness."

Under the legislation proposed by the *Legislative Working Group on Long-Term Care*, new nursing home projects will need to demonstrate the cost-effectiveness of each request. Proposed projects will be compared against feasible alternatives to determine if the proposal is the most effective way to achieve comparable results. The Task Force recognizes that this issue needs more discussion and recommends that legislation be introduced for further consideration. (Please see Appendix B, page 69, for further detail. ❖



Alaska Commission on Aging

Resolution 99-5

In support of HB 187: An act relating to the certificate of need program for nursing care facilities and other facilities

Whereas Alaska's rapidly growing statewide senior citizen community is part of a national and international trend of increased longevity due to better nutrition, health care, and increased standards of living, and

Whereas the statewide community of older Alaskans age 65+ is projected to grow from 22,095 in 1990 to 80,927 by 2015, and

Whereas the availability of appropriate long-term care is vital to the well-being of disabled, chronically ill and frail Alaskans of all ages now, and in the future, and

Whereas developing the capacity to meet present and projected long-term care needs challenges us to plan strategically and allocate long-term care resources accordingly; and

Whereas SB 59 will amend Alaska's Certificate of Need Program to improve the State's ability to assure that future long-term care development is strategic, responsive to public need and preference, and cost-effective, and

Whereas the Legislative Long Term Task Force Report of January, 1999, recommended the introduction of this legislation in its Recommendation #21;

Now therefore the Alaska Commission on Aging strongly encourages the Twenty-First Alaska Legislature to pass SB 59.

Adopted this 9th day of March, 1999.

A handwritten signature in cursive script, reading "Alaire E. Stanton". The signature is written in black ink and is positioned above a horizontal line.

Alaire Stanton
Chair

SENATE FINANCE COMMITTEE

SIGN-IN

HB 187-CERTIFICATES OF NEED FOR HEALTH FACILITY

NAME: Elmer Lindstrom / Jay Lively Sub./Bill No: HB 187
Co./Dept./Title: DASS Phone: 465-3030
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions

NAME: _____ Sub./Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions

NAME: _____ Sub./Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions

NAME: _____ Sub./Bill No: _____
Co./Dept./Title: _____ Phone: _____
Address: _____ Zip: _____

Do you wish to testify? Yes No Respond to Questions

HB

189

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: April 12, 1999

FURTHER REFERRALS:

Date of Committee Action: 4/19/99

The FINANCE Committee considered:

HB 189

HOUSE BILL NO. 189

AHFC ACQUISITION OF BUILDING

"An Act authorizing the Alaska Housing Finance Corporation to acquire the building that it occupies for an amount that does not exceed \$6,650,000; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 189 (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) DOR fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Con Herrault</i> Therrault	x			
<i>Van Bunde</i> Bunde	x			
<i>Eric Kohring</i> Kohring	x			
<i>Allen Gusterson</i> Gusterson	x			
<i>John N. Davis</i> Davis	x			
<i>Sam Grossendorf</i> Grossendorf	x			
<i>John Davis</i> Davis	x			
<i>William Williams</i> Williams	x			
<i>John Foster</i> Foster	x			
<i>John Mulder</i> Mulder	x			

CHAIR'S SIGNATURE

Con Herrault *John Mulder*

Therrault *Mulder*

FISCAL NOTE

STATE OF ALASKA
1999 LEGISLATIVE SESSION

BILL NO. HB189

Revision Date/Time (Note if correction)	4/14/99	Dept. Affected	Revenue
Title	AHFC Building Purchase	BRU	AHFC Operations
Sponsor	House Finance Committee	Component	AHFC Operations
Requester		Component Serial No.	110

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	(496.6)	(494.3)	(494.2)	(494.1)	(502.7)	(494.2)
Supplies	0.0	0.0	0.0	0.0	0.0	0.0
Equipment	0.0	0.0	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	(496.6)	(494.3)	(494.2)	(494.1)	(502.7)	(494.2)

CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
-----------------------------	-----	-----	-----	-----	-----	-----

CHANGE IN REVENUES ()	179.4	181.3	183.2	185.1	187.1	189.2
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts	(134.6)	(134.0)	(133.9)	(133.9)	(136.2)	(133.9)
1003 GF Match	0.0	0.0	0.0	0.0	0.0	0.0
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts	0.0	0.0	0.0	0.0	0.0	0.0
1037 GF/Mental Health	0.0	0.0	0.0	0.0	0.0	0.0
Other (Specify Type)	(362.0)	(360.3)	(360.3)	(360.2)	(366.5)	(360.3)
TOTAL	(496.6)	(494.3)	(494.2)	(494.1)	(502.7)	(494.2)

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time	0	0	0	0	0	0
Part-time	0	0	0	0	0	0
Temporary	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Attached analysis is provided regarding building appraisal, costs, savings, and purchase agreement.

Savings to AHFC's lease costs are shown above as Contractual reductions due to purchasing the building the corporation currently occupies at 4300 Boniface in Anchorage. These reductions represent the difference between lease savings and annual costs of building operations and maintenance. Since AHFC uses both corporate and federal funding sources to pay for lease costs, savings are reflected under both funding sources.

Revenues shown above are estimates of continuing leases to private tenants in the building. These revenues would be reflected in the corporation's financial statements as income.

Prepared by Les Campbell, Budget Officer
 Division Alaska Housing Finance Corporation
 Approved by [Signature]
 Commissioner [Signature]
 Agency DEPARTMENT OF REVENUE

Phone 330-8356
 Date/Time 4/14/99
 Date 4/14/99

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HOUSE BILL NO. 189

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-FIRST LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Introduced: 4/12/99

Referred: Finance

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing the Alaska Housing Finance Corporation to acquire the
2 building that it occupies for an amount that does not exceed \$6,650,000; and
3 providing for an effective date."

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

5 * Section 1. ALASKA HOUSING FINANCE CORPORATION AUTHORIZED TO
6 ACQUIRE BUILDING. The Alaska Housing Finance Corporation is authorized to acquire
7 the building in Anchorage it occupies on the effective date of this Act for an amount that does
8 not exceed \$6,650,000. This section constitutes the approval required by AS 18.55.100(d) ^{and} for
9 that acquisition. AS 18.56.090(d)

10 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

**ALASKA HOUSING FINANCE CORPORATION
BOARD CONSIDERATION MEMORANDUM**

Date: March 31, 1999

Staff: Michael Buller

Item: Consideration of the Purchase of the AHFC Corporate Headquarters Building

ISSUE

AHFC has the opportunity to purchase the building we currently lease for the corporation's headquarters. The AHFC Office Building, formerly known as the Jesse L. Carr Building, is owned by the Union Labor Life Insurance Company (ULLICO) and is located at 4300 Boniface Parkway in Anchorage. The sale price is \$6,650,000. This price represents the appraised value as determined by Kincaid & Riely, LLC and verified for the corporation by the Appraisal Company of Alaska. This opportunity may only be available for a short time due to the current owner's interest in selling the property and interest shown by other investors.

BACKGROUND

The AHFC Office Building was constructed in 1985 and is located at the corner of Boniface and Tudor in Anchorage. The property site is comprised of a single lot containing 5.12 acres of land. The building itself is a four story, Class A office complex with a total gross square footage of 77,742sf and 62,643sf of usable office space including 3,141sf of basement storage. The building is surrounded by a paved parking lot with 274 designated parking spaces. The property is currently zoned B-3. The B-3 designation denotes property that may be used for general commercial use in areas exposed to heavy automobile traffic.

AHFC's involvement with this building resulted from an RFP issued by the corporation in 1996 for leased office space. ULLICO was selected as the most responsive bidder and on August 28, 1997, AHFC signed a long-term lease with the owner. The lease includes the following general provisions:

- Leased Area: The corporation currently leases 49,796sf of usable office space and 1695sf of basement storage space. This represents 84% of the usable office space and 54% of the basement storage space.
- Lease Rate: The corporation agreed to an initial base rate of \$1.65/sf for office space and \$1.00/sf for basement storage space. The rent is adjusted annually by applying the Anchorage Area CPI to 30% of the base rent. During the initial ten-year term of the lease the rate can not exceed 35% of the base rate or \$2.23 /sf.
- Total Lease Payment: The total lease payment is currently \$84,378 per month or \$1,012,536 per year.
- Lease Term: The lease provides for an initial ten-year term and two optional five-year terms.

Last year ULLICO approached the corporation with an offer to sell the building. After carefully reviewing their offer and several months of negotiations, we agreed on the terms of the sale. Included in your packet is a copy of the Purchase and Sale Agreement signed by ULLICO and AHFC. This agreement sets out the terms and condition of the sale. The significant issues covered in the agreement are summarized below:

- Sale Price: The sale price for the property is \$6,650,000. As stated above, two independent appraisers, one representing ULLICO and the other AHFC have confirmed this price.
- Earnest Money Agreement: If the AHFC Board of Directors approves the purchase of the property, the corporation will deposit \$50,000 earnest money into an escrow account. This money will be non-refundable except for the contingencies listed below. AHFC will have until June 20, 1999 to close the purchase. An option to extend the closing date by 60 days can be exercised by depositing an additional \$50,000 into the escrow account. This second deposit will be credited to the purchase price upon closing and is non-refundable to the extent the initial earnest money is non-refundable.
- Contingencies of Closing: There are four contingencies to closing: 1.) The property must pass all inspections and assessments required by AHFC. The failure to pass any required inspection or the presence of any hazardous materials unacceptable to AHFC, the corporation may rescind this agreement and have its earnest money returned. 2.) The AHFC Board of Directors must approve the purchase of the property. 3.) The ULLICO Board of Directors must approve the sale of the property (the sale was approved during a board meeting held March 9, 1999). 4.) The purchase of the property must be approved by Legislature of the State of Alaska during its 1999 Session and such legislation must become law. If the legislature does not approve the purchase of the property, AHFC will notify the seller in writing and its deposit will be returned.

The purchase of this building will provide a significant cost saving to the corporation (see the attached spreadsheet). The corporation now pays \$1.69/sf for the space we lease. This price will drop to \$0.98/sf if we purchase the building. This compares favorably with the asking price for other class "A" office space in Anchorage. The Frontier Building is currently asking \$2.50/sf and the ARCO Building is asking \$1.85/sf with no tenant improvements. By purchasing the building rather than continuing to lease, the estimated savings to the corporation over the 18-year lease period is \$9,837,078.

Located at a major intersection in Anchorage, the AHFC Office Building is easily accessible to the public. There is a city bus stop in front of the building on Tudor Road. A parking area with 274 parking spaces is adjacent to the building offering more than adequate parking for employees and the public. Additional space within the building will become available if needed. This building will provide adequate office space for AHFC's statewide headquarters well into the next century.

AHFC currently occupies most of the building. Because of this, there will be no disruption to the local office space market.

REPRESENTATIVE
GENE THERRIAULT
Co-Chair
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Fax: (907) 465-3884

INTERIM ADDRESS
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Fairbanks, Alaska 99701
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Alaska State Legislature
House Finance Committee



State Capitol, Juneau, Alaska 99801-1182

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Fax: (907) 269-0264

HB 189
Sponsor Statement

HB189 authorizes the Alaska Housing Finance Corporation to purchase the office building it currently occupies at 4300 Boniface Parkway in Anchorage.

The purpose of this bill is to achieve budget savings by eliminating the need for lease expenses in AHFC's operating budget. AHFC has submitted a negative fiscal note, estimating an approximate saving of \$500,000 a year.

In 1996 AHFC issued an RFP for leased office space for their Corporation's headquarters. The Union Labor Life Insurance Corporation (ULLICO) was selected as the most responsive bidder and AHFC signed a long-term lease for 50,000 square feet at \$1.69/sf. AHFC's lease has a remaining term of 8 years with two five-year options to extend (potentially continuing the lease term through 2017).

Last year, senior management at AHFC was approached by the building owner (ULLICO) about purchasing the building. After several months of negotiating, AHFC and ULLICO agreed to a sale price of \$6,650,000.

The AHFC Board of Directors has passed a resolution supporting the purchase and has directed the Executive Director to work with the legislature to obtain the necessary authorization for the purchase. HB 189 is intended to provide this necessary authorization.

Alaska Housing Finance Corporation
Resolution No. 99-29

A RESOLUTION OF THE ALASKA HOUSING FINANCE CORPORATION AUTHORIZING AND APPROVING THE PURCHASE OF AN OFFICE BUILDING LOCATED IN ANCHORAGE, ALASKA

WHEREAS the Alaska Housing Finance Corporation currently leases from the Union Labor Life Insurance Corporation (ULLICO) approximately 50,000 square feet of office and storage space at its corporate headquarters located at 4300 Boniface Parkway, Anchorage, Alaska and

WHEREAS said lease has a remaining term until September 2007 with two five-year options to extend which could potentially continue the term through 2017; and

WHEREAS the Corporation determined that it was in the best interest of the Corporation to enter into discussion to purchase the building and real property; and

WHEREAS the Executive Director on behalf of the Corporation has executed a Purchase and Sale Agreement With Escrow Instructions which is contingent upon this Board and the Alaska Legislature approving the purchase.

NOW THEREFORE BE IT RESOLVED by the Alaska Housing Finance Corporation Board of Directors as follows:

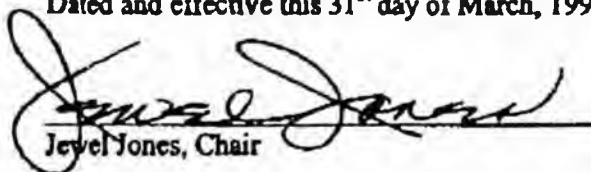
Section 1. The purchase of the building and land located at 4300 Boniface, more particularly known as Tract C-2, Castle Heights Addition No. 3, Anchorage Recording District under the terms of the Purchase and Sale Agreement for the price of \$6,650,000.00 is hereby approved.

Section 2. The Executive Director of the Alaska Housing Finance Corporation is hereby authorized, empowered, and directed to:

- (a) Purchase the land and improvements from The Union Labor Life Insurance Corporation (ULLICO) for an amount of \$6,650,000.00 under the terms of that certain Purchase and Sale Agreement and Escrow Instructions dated March 12, 1999 so long as all inspections contemplated by Section 3.2 (d) are found acceptable in the Executive Director's sole discretion, and
- (b) Submit the Purchase to the Alaska Legislature for its approval by passage of legislation authorizing the purchase and such legislation becoming law pursuant to Section 2.3 B of the agreement.

Section 3. This resolution shall take effect immediately.

Dated and effective this 31st day of March, 1999.


Jewel Jones, Chair

ALASKA HOUSING FINANCE CORPORATION**RESOLUTION NO. 99-30**

RESOLUTION OF THE ALASKA HOUSING FINANCE CORPORATION DETERMINING TO SELL BONDS TO PROVIDE FUNDS TO PURCHASE THE OFFICE BUILDING LOCATED ON BONIFACE PARKWAY IN ANCHORAGE, ALASKA, CURRENTLY OCCUPIED BY THE ALASKA HOUSING FINANCE CORPORATION, PERTAINING TO THE REIMBURSEMENT OF THE ALASKA HOUSING FINANCE CORPORATION FROM THE PROCEEDS OF SUCH BONDS, AND DETERMINING RELATED MATTERS.

WHEREAS, the Alaska Housing Finance Corporation (the "Corporation") currently occupies by lease the office building located at 4300 Boniface Parkway in Anchorage, Alaska (the "Building"); and

WHEREAS, the Corporation has determined that it is in its best interest to acquire the Building; and

WHEREAS, the Corporation has entered into appropriate agreements with the owner of the Building to accomplish the acquisition of the Building by the Corporation; and

WHEREAS, the Corporation is attempting and will continue to attempt to obtain legislative approval for the acquisition as required by AS 18.56.090(d) before acquiring the Building; and

WHEREAS, the Corporation believes that it will be able to obtain the legislative approval required to complete its acquisition of the Building; and

WHEREAS, the Internal Revenue Service has adopted final regulations (at Section 1.150-2 of the Treasury Regulations) pertaining to the use of the proceeds of tax-exempt bonds to reimburse the issuer of such bonds for the costs of capital expenditures paid by the issuer from other funds prior to the issuance of the bonds, with the purpose of the regulations being to curb the practice of some issuers of allocating bond proceeds to capital expenditures paid long before, and without reliance on the issuance of bonds, thus enabling such issuers to avoid complying with certain provisions of Section 103 and Sections 141-150 of the Internal Revenue Code of 1986, as amended; and

WHEREAS, one of the requirements of Section 1.150-2 of the Treasury Regulations is that the issuer, within sixty (60) days after the expenditure to be reimbursed is paid, must state that it intends to reimburse the expenditure with proceeds of an obligation to be incurred by the issuer.

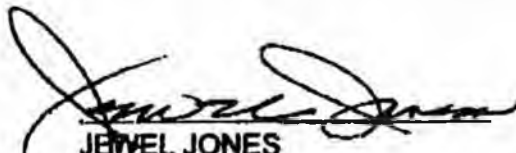
NOW, THEREFORE, BE IT RESOLVED BY THE ALASKA HOUSING FINANCE CORPORATION, AS FOLLOWS:

Section 1. That the Corporation intends to issue and sell its bonds (the "Bonds") pursuant to the provisions of the Act to pay all or a portion of the costs incurred by the Corporation in connection with the acquisition of the Building, or to reimburse the Corporation for any such costs, together with costs incident to the authorization, sale and issuance of the Bonds. The maximum principal amount of obligations expected to be issued for the Project is \$7,500,000. The Corporation intends to continue to use the Building after its acquisition for office space for the Corporation.

Section 2. That this Resolution is intended to satisfy the requirements of Section 1.150-2 of the Treasury Regulations.

DATED at Anchorage, Alaska, this 31st day of March, 1999.

ALASKA HOUSING FINANCE CORPORATION



JEWEL JONES
Chair

**ALASKA HOUSING FINANCE CORPORATION
BOARD CONSIDERATION MEMORANDUM**

Date: March 31, 1999

Staff: Michael Buller

Item: Consideration of the Purchase of the AHFC Corporate Headquarters Building

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BACKGROUND

The AHFC Office Building was constructed in 1985 and is located at the corner of Boniface and Tudor in Anchorage. The property site is comprised of a single lot containing 5.12 acres of land. The building itself is a four story, Class A office complex with a total gross square footage of 77,742sf and 62,643sf of usable office space including 3,141sf of basement storage. The building is surrounded by a paved parking lot with 274 designated parking spaces. The property is currently zoned B-3. The B-3 designation denotes property that may be used for general commercial use in areas exposed to heavy automobile traffic.

AHFC's involvement with this building resulted from an RFP issued by the corporation in 1996 for leased office space. ULLICO was selected as the most responsive bidder and on August 28, 1997, AHFC signed a long-term lease with the owner. The lease includes the following general provisions:

- Leased Area: The corporation currently leases 49,796sf of usable office space and 1695sf of basement storage space. This represents 84% of the usable office space and 54% of the basement storage space.
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- Contingencies of Closing: There are four contingencies to closing: 1.) The property must pass all inspections and assessments required by AHFC. The failure to pass any required inspection or the presence of any hazardous materials unacceptable to AHFC, the corporation may rescind this agreement and have its earnest money returned. 2.) The AHFC Board of Directors must approve the purchase of the property. 3.) The ULLICO Board of Directors must approve the sale of the property (the sale was approved during a board meeting held March 9, 1999). 4.) The purchase of the property must be approved by Legislature of the State of Alaska during its 1999 Session and such legislation must become law. If the legislature does not approve the purchase of the property, AHFC will notify the seller in writing and its deposit will be returned.

The purchase of this building will provide a significant cost saving to the corporation (see the attached spreadsheet). The corporation now pays \$1.69/sf for the space we lease. This price will drop to \$0.98/sf if we purchase the building. This compares favorably with the asking price for other class "A" office space in Anchorage. The Frontier Building is currently asking \$2.50/sf and the ARCO Building is asking \$1.85/sf with no tenant improvements. By purchasing the building rather than continuing to lease, the estimated savings to the corporation over the 18-year lease period is \$9,887,078.

Located at a major intersection in Anchorage, the AHFC Office Building is easily accessible to the public. There is a city bus stop in front of the building on Tudor Road. A parking area with 274 parking spaces is adjacent to the building offering more than adequate parking for employees and the public. Additional space within the building will become available if needed. This building will provide adequate office space for AHFC's statewide headquarters well into the next century.

AHFC currently occupies most of the building. Because of this, there will be no disruption to the local office space market.

RECOMMENDATION

Because of the clear benefits to the corporation, staff recommends that the Board approve the purchase of this property for the following reasons:

- Purchasing the building will provide substantial savings to the corporation.
- The building meets the space requirement needs of the corporation and is easily accessible to the public.
- There will be no negative impacts to the local commercial leasing market.

Alaska Housing Finance Corporation

Boniface Building Purchase Summary

Prepared as of April 1, 1999

	<u>Over 18 year life of lease</u>
CONTINUED LEASING	
Aggregate lease payments	<u>\$ 19,964,034</u>
 PURCHASE OF BONIFACE BUILDING	
Operating expenses net of real estate taxes	\$ 9,221,260
Real estate taxes on tenant portion	335,430
Total operating expenses and applicable taxes	<u>9,556,690</u>
Tenant rental income	<u>(3,560,301)</u>
Operating expenses net of rental income	5,996,389
Major repairs/replacements	632,190
Loan payments	<u>10,098,378</u>
 Total ownership and financing costs	 16,726,957
Loan principal applied	(6,650,000)
Building appreciation	<u>0</u>
Operating expenses adjusted for principal paid (Net Ownership Cost)	<u>10,076,957</u>
 Total gross savings: purchase vs lease	 <u>\$ 9,887,078</u>

PROJECTED SAVINGS:

Gross Savings \$ 9,887,078

Net Present Value of Savings

Discount factor	5.00%	\$	6,204,626
	6.00%	\$	5,709,903
	7.00%	\$	5,271,111
	8.00%	\$	4,880,790

Alaska Housing Finance Corporation

Analysis of 4300 Boniface Parkway Property

	YEAR									
	1	2	3	4	5	6	7	8	9	10
	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09
LEASE/RENT										
Rental Expense	1,021,649	1,031,035	1,040,703	1,050,661	1,060,917	1,071,481	1,082,363	1,093,570	1,103,412	1,113,550
Rental cost (monthly per s.f.)	1.71	1.73	1.74	1.76	1.76	1.78	1.81	1.83	1.85	1.88
BUY										
Operating expenses net of tax	393,828	405,643	417,812	430,346	443,257	456,555	470,251	484,359	498,690	513,858
Real estate taxes - tenant port.	14,326	14,756	15,198	15,654	16,124	16,607	17,106	17,619	18,147	18,692
Total operating exp. and tax	408,154	420,399	433,010	446,001	459,381	473,162	487,357	501,978	517,037	532,550
Tenant rental income	(179,446)	(181,276)	(183,161)	(185,102)	(187,102)	(189,161)	(191,283)	(193,468)	(195,718)	(198,037)
Operating exp. net of rent	228,708	239,123	249,850	260,899	272,279	284,001	296,074	308,510	321,318	334,611
Major repairs/replacements	27,000	27,810	28,644	29,504	30,389	31,300	32,239	33,207	34,203	35,229
Loan payment	561,021	561,021	561,021	561,021	561,021	561,021	561,021	561,021	561,021	561,021
Total ownership and financing	816,729	827,954	839,515	851,423	863,669	876,322	889,335	902,737	916,542	930,761
Loan principal applied	(233,631)	(245,795)	(258,370)	(271,569)	(285,484)	(300,090)	(315,443)	(331,661)	(348,546)	(366,378)
Building appreciation	0	0	0	0	0	0	0	0	0	0
Op. exp. adj. for principal paid	562,868	562,159	561,145	559,835	558,205	556,233	553,892	551,156	547,997	544,383
AKA "Net ownership cost"	253,861	265,805	278,370	291,588	305,464	320,089	335,443	351,581	368,546	386,378
Rental cost (monthly per s.f.)	0.88	0.97	0.97	0.97	0.97	0.99	0.99	0.99	0.99	0.99
Savings: Purchase vs Lease										
	438,781	446,678	499,858	470,826	482,712	485,248	508,471	522,414	538,416	548,187

Alaska Housing Finance Corporation

Analysis of 4300 Boniface Parkway Property

	YEAR								Total for 18 Years
	11 <u>09/10</u>	12 <u>10/11</u>	13 <u>11/12</u>	14 <u>12/13</u>	15 <u>13/14</u>	16 <u>14/15</u>	17 <u>15/16</u>	18 <u>16/17</u>	
LEASE/RENT									
Rental Expense	1,123,891	1,134,746	1,145,824	1,156,136	1,169,756	1,177,698	1,188,967	1,200,574	10,984,034
Rental cost (monthly per s.f.)	1.88	1.89	1.92	1.93	1.95	1.97	1.99	2.01	
BUY									
Operating expenses net of tax	529,272	545,150	561,505	578,350	595,700	613,571	631,978	650,838	8,221,260
Real estate taxes - tenant port.	19,253	19,630	20,425	21,038	21,689	22,319	22,969	23,678	335,430
Total operating exp. and tax	548,525	564,780	581,930	599,388	617,389	635,890	654,947	674,516	8,556,690
Tenant rental income	(200,424)	(202,664)	(205,417)	(208,028)	(210,714)	(213,482)	(216,333)	(219,269)	(3,580,301)
Operating exp. net of rent	348,100	362,096	376,513	391,361	406,656	422,409	438,634	455,347	5,888,389
Major repairs/replacements	36,285	37,374	38,496	39,650	40,840	42,065	43,327	44,627	632,180
Loan payment	561,021	561,021	561,021	561,021	561,021	561,021	561,021	561,021	10,008,378
Total ownership and financing	945,407	960,492	978,029	992,033	1,009,517	1,025,495	1,042,982	1,060,995	10,728,957
Loan principal applied	(385,122)	(404,826)	(425,536)	(447,309)	(470,194)	(494,250)	(519,537)	(546,118)	(6,650,000)
Building appreciation	0	0	0	0	0	0	0	0	0
Op. exp. adj. for principal paid AKA "Net ownership cost"	660,284	555,666	550,491	544,724	538,322	531,245	523,445	514,677	10,078,957
Rental cost (monthly per s.f.)	0.94	0.93	0.92	0.91	0.90	0.89	0.88	0.87	
Savings: Purchase vs Lease	563,707	579,080	595,332	611,412	628,435	646,454	665,521	685,686	9,857,076

Alaska Housing Finance Corporation
Analysis of 4300 Boniface Parkway Property
 (Analysis prepared as of April 1, 1999)

Assumptions:

- | | |
|---|--------------|
| 1. Closing on building purchase | August, 1999 |
| 2. Real estate taxes are paid on tenant portion only. | |
| 3. Assumed cost of funds (if financed): | 5.00% |
| 4. Purchase price of: | \$6,650,000 |
| 5. Loan payments (18 yr. Term) | |
| Term | 18 years |
| Monthly payments | \$46,752 |
| Annual payments | \$561,021 |
| 6. Operation expenses are 1997/1998 actual
escalated at estimated CPI increase. | |
| 7. CPI increase per year: | 3.00% |
| 8. Base year allowance for major repairs/replacements
Subject to annual increases equal to projected changes in CPI. | \$27,000 |

Rents payable	Current	07/07 Adj.	07/12 Adj.
9. Base rent payable	1,012,538	1,093,570	1,145,824
10. Base rent subject to increase (30%)	303,761	328,071	343,747
11. Fixed portion of base rent (70%)	708,775	765,499	802,076

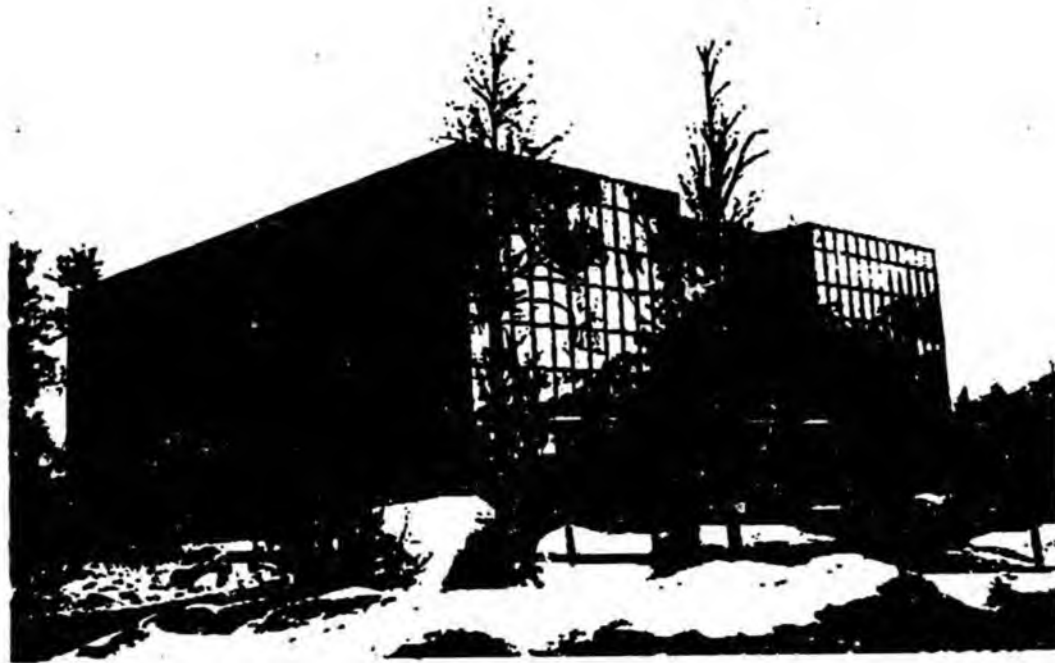
- | | |
|---|-------------------------------|
| Rental Income | |
| 12. Tenant portion of building subject to R/E tax | |
| Total non-tenant rent | 1,012,538 84.95% |
| Tenant rent | 179,448 15.05% |
| Total all rent | <u>1,191,982 100.00%</u> |
| 13. Base year tax assumption | 95,160 |
| Tenant portion | 15.05% |
| Estimated base year tax assessment | <u>14,326</u> |
| 14. Building appreciation | <u>0.00%</u> |
| 15. Lease began: | 06/97 |
| 16. First extension date (5 additional years): | 07/07 |
| 17. Second extension date (5 additional years): | 07/12 |
| 18. Final lease expiration date: | 07/17 |
| 19. Current useable square footage (USF) leased: | 49,796 |
| 20. Current monthly lease cost per USF | \$1.89 sf |

of

**AHFC Office Building
4300 Boniface Parkway
Anchorage, Alaska**

FOR:

**Mr. David S. Glaner
Director, Real Estate Investments
Union Labor Life Insurance Company
111 Massachusetts Avenue, N.W.
Washington, D.C. 20001**



**KINCAID & RIELY, LLC
REAL ESTATE APPRAISERS & CONSULTANTS**

Reference No. 9903

KINCAID & RIELY, LLC
REAL ESTATE APPRAISERS & CONSULTANTS
 313 K Street, Suite 402, Anchorage, Alaska 99501-2046

[907] 274-1851
 Fax [907] 274-8403

March 1, 1998

Mr. David S. Glasner
 Director, Real Estate Investments
 Union Labor Life Insurance Company
 111 Massachusetts Avenue, N.W.
 Washington, D.C. 20001

RE: Valuation of the Leased Fee Interest in the AHFC Office Building (formerly known as Jesse L. Carr Building) at 4300 Boniface Parkway in Anchorage, Alaska, Our Appraisal Reference No. 9803.

Dear Mr. Glasner:

At your request, we have prepared a complete appraisal of the above-referenced property. The findings of our analysis are described in the attached, self-contained appraisal report. The purpose of this appraisal is to estimate the "as is" market value of the leased fee interest in the subject real estate. The definition of market value used in this report can be found in the Summary of Important Facts and Conclusions. This report meets the current Uniform Standards of Professional Appraisal Practice (USPAP) as formulated by The Appraisal Foundation, and conforms to the Appraisal Standards for Federally Related Transactions adopted by the Office of the Comptroller of Currency (OCC).

The subject property has been personally inspected by Theodore Jensen, Research Analyst, and Ken E. Kincaid, MAI. Mr. Jensen's substantial contribution to this appraisal is acknowledged for the gathering of data and preparation of analyses. However, this report contains the value conclusions and signature of Mr. Kincaid only. We have made a thorough investigation and analysis of the Anchorage office market. We have also talked with numerous real estate brokers and property owners for the purpose of forming an opinion of market value. By reason of our investigation and analysis, we have formed the opinion that the market value of the leased fee interest in the subject real estate, subject to the assumptions and limiting conditions contained herein, as of February 17, 1998, is as follows:

SIX MILLION FIVE HUNDRED THOUSAND DOLLARS	\$6,500,000
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Respectfully submitted,


 Ken E. Kincaid, MAI

KEK/asj/pvb

98 OCT 30 PM 2 13

CERTIFICATION & LIMITING CONDITIONS

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

- 1) I have no personal 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 analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, unbiased, professional analysis, 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 analysis, opinions, or conclusions in, or the use of this report.
- 5) This appraisal report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analysis, opinions and conclusions contained in this report.
- 6) Unless specifically stated in the body of this report our analysis, 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 (FIREAR) of 1989 and the Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
- 7) This appraisal 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) We have provided significant professional assistance to the person signing this report, unless otherwise stated in the Letter of Transmittal.
- 10) The appraiser 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, natural, or structural (including subsidence, 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 considerations.
- 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 appraiser is not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made therefore.
- 16) The abbreviation of unit value to land, building, or any fractional part or interest as shown in this report, is intended if used separately in conjunction with any other appraisal.
- 17) The appraiser hereby certifies that the appraisal engagement was not based on a required minimum valuation, a specific valuation, or approval of a loan, and that the appraiser was competent and qualified to perform the appraisal assignment.
- 18) Unless otherwise stated in this report, the subject property is appraised without a specific comparative 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 presence of architectural and construction barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability or ability.
- 19) Ken E. Kinnick, MAI (Certificate No. AA-32) is currently certified by the State of Alaska, as a General Real Estate Appraiser through June 30, 1999.
- 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. Kinnick, MAI is under the mandatory program and has met all the Appraisal Institute continuing education requirements through December 31, 2001.

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

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


 Signature of Appraiser

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SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

The following is an executive summary of the important facts and conclusions of this appraisal. The reader is referred to the various sections of this report for a more thorough discussion of any of these summary descriptions.

Identity of Property

The subject property is the AHFC Office Building, formerly known as the Jesse L. Carr Building, located at 4300 Boniface Parkway in Anchorage, Alaska. The subject is identified by the Municipality of Anchorage as Tax Identification No. 007-162-66, Our Appraisal Reference No. 9803.

Location

The subject is the most easterly Class A office building in the Anchorage area, and is obviously separated from the Downtown central business district (CBD) and Midtown commercial areas. With the exception of the Family Medical & Dental Center, the Alaska Club, and the Alaska State Trooper barracks, the surrounding developments include a mixture of single-family and multi-family residential uses. There is a substantial business park developed approximately $\frac{1}{2}$ of a mile west of the subject fronting Tudor Road and a strip retail mall with an office building roughly one mile east of the subject. With the exception of a 1994 addition to the Alaska Club, the subject's immediate neighborhood has changed very little over the last several years. Regarding surrounding streets, the subject is accessed from East Tudor Road to the south, Boniface Parkway to the east, and East 42nd Avenue to the north.

Legal Description

The subject is legally described as Tract C-2, Castle Heights Subdivision, Addition No. 3, according to Plat No. 84-400, Anchorage Recording District, Third Judicial District, State of Alaska.

Property Rights Appraised

The subject is essentially 100% occupied under various short and long term leases, with the exception of a relatively insignificant 350sf of vacant basement storage area. Due to the leases, this is an appraisal of the leased fee interest in the subject real estate. The Dictionary of Real Estate Appraisal, Third Edition, defines the leased fee estate as, "an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease."

Excluded Items

This is an appraisal of the subject real estate only. No personal property was identified which would materially affect the value conclusions.

Site Description

The site is comprised of a single lot containing 223,018sf or 5.12 acres. The improvements are situated near the southern edge of the property, but have paved parking area surrounding them on all sides. All utilities are available to the site. The topography is generally level, and the site is at grade with all immediately surrounding streets. For a more thorough description of the site, please refer to the Description of Site section of this report.

Description of Improvements

The subject is improved with an excellent quality, four-story, Class A office building with a partial basement storage area. The building is situated near the southern portion of the site with direct access and visibility from both Boniface Parkway and East Tudor Road. The basement area is located under the central core area and is L-shaped containing approximately 5,855sf of gross building area (GBA). There are currently five tenants in the building. The largest tenant, AHFC, occupies roughly 80% of the 1st floor, roughly 20% of the 2nd floor, and the entire 3rd and 4th floors. Of note, the subject is leased on a usable basis. A summary of the building areas is as follows:

Floor	Gross Area	Usable Area ¹⁰
First Floor	22,350sf	17,261sf
Second Floor	15,473sf	12,955sf
Third Floor	17,032sf	14,643sf
Fourth Floor	17,032sf	14,643sf
Total Office Area	71,887sf	59,502sf
Basement Storage	5,855sf	3,141sf
Total Building Area	77,742sf	62,643sf

¹⁰ Area as leased

The overall efficiency ratio (usable divided by gross area) of the office area is 83%, while the efficiency of the entire building, including the basement, is 80%. As shown above, the usable area on the 1st floor indicates a slightly lower efficiency ratio of 77% due to the common area lobby. Moreover, the two-story lobby decreases the GBA of the 2nd floor somewhat. In addition, the structure has a small mechanical penthouse which is not included in the above gross building area calculations. For a more thorough description of the improvements, please refer to the Description of Improvements section of this report.

Zoning

The subject is located in a B-3 zoning district with multi-family zoning directly across East 42nd Avenue and a single-family zoning adjacent to the northwest corner of the property. The B-3 district is intended for general commercial use in areas exposed to heavy automobile traffic. This zoning classification allows for a wide variety of office and retail uses, and the subject improvements appear to be in conformance with this classification. A copy of the B-3 zoning ordinances from Title 21 of the Municipal Land Use Regulations is included in the Addenda.¹

Addenda Enclosure: Subject Zoning Regulations

Environmental Issues

We have inspected the subject with due diligence expected of professional real estate appraisers. We are not qualified to detect hazardous or toxic materials. Any comment by the appraisers that might suggest the possibility of the presence of such substances should not be taken as confirmation of the existence of such substances. Such determination would require investigation by qualified experts in the field of environmental assessment. We did not observe any obvious signs of hazardous wastes or toxic materials on the surface of the site or interior of the building. It is an express² assumption of this report, that such items are not present on the property and that the subject is environmentally clean.

Highest and Best Use

As of the effective date of this appraisal, the property is essentially 100% occupied. Continued operation of the existing improvements as an office building is the highest and best use of the site as improved. The highest and best use of the site, as if vacant and undeveloped, would be to hold for future construction until such construction becomes economically feasible. Considering the subject's corner access and excellent visibility, the most probable development at that point would be an office or retail type facility. The most probable buyer for the property is an investor or possibly an existing tenant, such as AHFC.

Purpose and Intended Use of Appraisal

This appraisal was prepared for Union Labor Life Insurance Company. The purpose of the appraisal is to estimate the market value "as is" for the subject property. It is our understanding, that the intended use of this appraisal report is for possible sale of the property.

Definition of Market Value

As instructed, we have estimated the "as is" market value of the subject, based on physical, financial, and legal conditions in effect as of the appraisal date. The definition of market value used in this report is from the Uniform Standards of Professional Appraisal Practice, 1997 edition, and this definition is agreed upon by agencies that regulate federal financial institutions in the United States of America. The definition is as follows:

MARKET VALUE - "Market value" is defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated.
- Both parties are well informed or well advised, and each acting in what they consider their own best interest.
- A reasonable time is allowed for exposure in the open market.

² Express Assumption for environmental issues. Reader attention is directed to Kiacid & Riely, LLC's Certificate and Limiting Conditions located immediately following our letter of transmittal. This express assumption is hereby added to the standard limiting conditions form and made a part thereof.

- Payment is made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
- The price represents the normal consideration for the property sold unaffected by special financing or sales concessions granted by anyone associated with the sale.

Owner of Record and Subject Sale History

We were not provided a title report for the subject. According to Municipal tax information, though, the subject is owned by Union Labor Life Insurance Company, c/o Schwamm & Frampton, 540 L Street, Suite 103, Anchorage, Alaska, 99501-1945. It is our understanding, that the building has not been sold or listed in the past five years. The building is not currently listed, nor is it being actively marketed for sale.

Exposure Time and Marketing Time

Crucial to the value estimate is the anticipated marketing period for the subject. The estimate of marketing time is based on the exposure periods for similar properties that have recently sold and is also based on anticipated trends in the market. Most of the sale comparisons in this appraisal sold after an exposure period of six to twelve months. Some properties were on the market for a longer period of time, but at prices substantially above the final sale prices. The presumption of marketing time, then, is based on an effective and reasonable marketing strategy. It is our experience, and that of commercial real estate brokers active in the Anchorage market, that nine to twelve months is a reasonable marketing period. We anticipate that the Anchorage office market will remain fairly stable in the near-term with little to no new construction or sizable change in demand. Based on historical sales activity and expected trends in Anchorage over the next year, we believe that the subject would sell at the price indicated by this appraisal within a marketing time of nine to twelve months. As the subject is not currently listed for sale, the actual exposure time is currently zero.

Date of Inspection and Effective Date of Appraisal

Ken E. Kincaid, MAI, and Theodore S. Jensen, Appraiser, inspected the property throughout February 1998. The most thorough inspection was February 17, 1998. The effective date of the "as is" appraisal is accordingly February 17, 1998. The appraisal report was prepared on approximately March 1, 1998.

Value Conclusions

Land Value (As Though Vacant)	N/A
Cost Approach	N/A
Sales Comparison Approach	\$8,250,000 to \$8,550,000
Income Capitalization Approach	\$8,500,000

Final Value Estimate

\$8,500,000

USE, PURPOSE AND SCOPE OF APPRAISAL

Purpose and Intended Use of Appraisal

This appraisal was prepared for Union Labor Life Insurance Company. The purpose of the appraisal is to estimate the market value "as is" for the subject property. It is our understanding, that the intended use of this appraisal report is for possible sale of the property.

Property Rights Appraised

The subject is essentially 100% occupied under various short and long-term leases, with the exception of a relatively insignificant 350sf of vacant basement storage area. Due to the leases, this is an appraisal of the leased fee interest in the subject real estate. The Dictionary of Real Estate Appraisal, Third Edition, defines the leased fee estate as, "an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the leased fee are specified by contract terms contained within the lease."

Date of Inspection and Effective Date of Appraisal

Ken E. Kincaid, MAI, and Theodore S. Jensen, Appraiser, inspected the property throughout February 1998. The most thorough inspection was February 17, 1998. The effective date of the "as is" appraisal is accordingly February 17, 1998. The appraisal report was prepared on approximately March 1, 1998.

Scope of the Appraisal

We have prepared a self-contained report which describes our findings which were developed in a complete appraisal of the subject. In this appraisal, we did not prepare a Cost Approach analysis, and this is further explained in the Cost Approach section. The scope of this appraisal encompasses the necessary research and analysis to prepare a report in accordance with the intended use, the *Standards of Professional Practice of the Appraisal Institute*, the *Uniform Standards of Professional Appraisal Practice* of the Appraisal Foundation, and the Appraisal Standards for Federally Related Transactions adopted by the Office of the Comptroller of Currency (OCC). In regard to the subject, the analysis involved the following steps:

1. The property was most thoroughly inspected on February 17, 1998 by Mr. Jensen. The subject photographs included in this report were taken at that time. Ms. Darlene McLane, the assistant building manager, accompanied Mr. Jensen during this inspection. Ms. McLane also provided general property information and answered questions regarding recent changes in tenant configurations. Mr. Kincaid inspected the property again on February 24, 1998. Mr. Dan Reynolds of Schwarna & Frampton, LLC, provided: a current rent roll dated January 27, 1998; operating information for 1995 through 1997; floor plans prepared by Neeser Construction, Inc. dated February 17, 1997; copies of current leases; and a "no further action (NFA)" letter from the Department of Environmental Conservation (DEC) dated December 11, 1997. Additional property information was obtained from the Municipality of Anchorage and from a previous appraisal of the subject completed by our firm with an effective date of September 20, 1991.

- 8 -

Kincaid & Riely, LLC

Real Estate Appraisers & Consultants

2. Beyond the DEC closure statement mentioned in the preceding paragraph, we were not provided with any environmental, soils or mechanical reports for this appraisal. Such documents provide helpful information, but the omission of such is not a critical shortcoming to the appraisal process. The appraisal is not limited in scope because of the lack of this information.
3. State, city, and neighborhood data is based on information made available by the State of Alaska Department of Labor, the University of Alaska Institute of Social and Economic Research, and by the Municipality of Anchorage Department of Economic Development. Additional information was obtained through studying the subject neighborhood and from articles in various publications as cited in this report.
4. In estimating the highest and best use for the property, we analyzed the data compiled in the steps noted above. In addition, we reviewed an Anchorage Office Market Study to reveal trends which would materially effect value of the property. These trends are reflected in the approaches to value.
5. In developing market estimates, the market data used was collected from the our office files, property owner/managers, real estate agents and/or persons knowledgeable of the marketplace.
6. After assembling and analyzing the data defined in this scope of appraisal, a final estimate of market value was made.

Methodology of Appraisal

The Cost Approach is most meaningful when it is possible to reliably estimate not only the costs of new construction but accrued depreciation as well. Extraordinary external obsolescence is a significant factor in the Anchorage office market. It is possible to develop a reliable market value estimate through the Sales Comparison and Income Capitalization Approaches. For these reasons, we have omitted the Cost Approach from this appraisal.

The Sales Comparison Approach derives value indicators from sales of properties which have characteristics similar to the subject. The sales information was obtained from the buyers, sellers or brokers involved in the transactions. The comparable sales data was analyzed for dissimilarities between the properties and the subject. We address the physical indicator of Sales Price Per Square Foot (SP/SF), and from this approach, we extract the economic indicator of Overall Rate of Return (ORR) which is considered in the Income Capitalization Approach.

In the Income Capitalization Approach, we used the OI2 computer program to project net operating income for the subject over a ten year holding period. In our analysis, we used contract rents for existing leases and market rental rates for new leases throughout the projection period. We based our initial expense projections on the subject's historic expenses and on current office building expenses at competing properties. The OI2 program demonstrates the subject's projected net operating income for Years 1 through 10. Of note, we used the Year 1 NOI figure for our capitalization analysis in the Sales Comparison Approach as this year rep-

resents the subject at stabilization. At any rate, the projected income stream is converted to a present value indication using discounted cash flow analysis. We then utilized the direct capitalization technique to the subject's Year 1 operating income as determined through O/2 as a secondary analysis of value through the Income Approach. In this second analysis, we relied upon the ORRs derived from the Sales Comparison Approach. These going-in capitalization rates reflect the expectations and actions of buyers in the current market for similar properties.

In the Reconciliation and Final Valuation section, the value conclusions through each of the approaches are evaluated for appropriateness, accuracy and quantity of evidence to arrive at a final market value conclusion for the subject.

Statement of Competency

The appraisers, Theodora S. Jensen and Ken E. Kincaid, MAI, have completed numerous valuations of office buildings and other commercial properties in Anchorage. Of particular note, Mr. Kincaid appraised the subject previously in 1991. A summary of the appraisers' experience is in the Addenda.³ We have thoroughly researched the market for trends and indications of market value. The appraisers are deemed competent to prepare this appraisal.

Addenda Enclosure: Appraisers' Experience Data

- 10 -

Kincaid & Riely, LLC
Real Estate Appraisers & Consultants



KINCAID & RIELY, LLC
REAL ESTATE APPRAISERS & CONSULTANTS
310 E. Street, Suite 402, Anchorage, Alaska 99501-3044

kincaid@krcad.com
For (907) 276-4488
(907) 276-1881

October 26, 1998

Mr. David Gleason
Director of Real Estate Investment
Union Life Insurance Company
111 Massachusetts Avenue NW
Washington D.C. 20001

RE: Update Analysis of the Leased Fee Interest in the AHFC Office Building Located at 4300 Boniface Parkway in Anchorage, Alaska; Our Appraisal Reference No. 987E.

Dear Mr. Gleason:

At your request, we have prepared an update appraisal of the above referenced property. This property was previously appraised by our firm with an effective date of February 17, 1988 and is identified as our Appraisal Reference No. 9800. By reference, this update is made a part of that appraisal. It is further understood, that the anticipated user of this report is familiar with the prior appraisal as well as the real estate market in which the subject competes. For these reasons, and due to the short time between the original appraisal and this update (8 months), I will not reiterate most of the factual information contained in the original appraisal. In fact, I will focus largely on the change in cash flow since that time, as the Income Approach and the resulting cash flow was the primary approach to value. (1) The following paragraphs, I will briefly describe the research undertaken as well as my conclusions of value. This update has followed the guidelines presented in Guide Note 3 of the Uniform Standards of Professional Appraisal Practice. It is subject to the assumptions and limiting conditions herein, as well as those assumptions and limiting conditions contained in the original appraisal.

Market Research

Kincaid & Riely, LLC remains very active in the appraisal of Class A office buildings, and we continuously complete an office survey encompassing more than 7,000,000sf of space. We have completed an update of our office survey since the original appraisal, and the results of this survey indicate a Class A vacancy of 2.2%. This is a substantial improvement from the 6.1% Class A vacancy noted in the prior appraisal. In addition, the limited amount of space that is available is beginning to command higher rents. As a part of this appraisal update, I called numerous real estate brokers and property owners in order to verify if there had been any changes in the market since the prior report. In general, I believe that the projected rental rates, operating expenses, and vacancy factors are still relevant and accurately portray the current market. While there is a slightly tighter market now than when we did our prior appraisal, it has limited impact on value since most of the subject property is under a long-term lease to AHFC. I physically inspected the subject property on October 16, 1998 and this is the effective date of this analysis. I have also reviewed the 1997 year-end and January through August 1998 actual income and expenses for the subject. In summary, after reviewing the original appraisal report and considering our new office market survey and research, I am determined that the projections utilized in the original appraisal are still relevant and accurate. The only changes would be those specific to the leases within the subject property, and they will be addressed in the following paragraph.

CERTIFICATION & LIMITING CONDITIONS

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

- 1) I have no personal 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 analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
- 3) The statements of fact contained in this report are true and correct.
- 4) My 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 appraisal report sets forth all of the limiting conditions (imposed by the terms of my 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 my 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 appraisal 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 in the person signing this report, unless otherwise stated in the Letter of Transmittal.
- 10) The appraiser 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 unreported conditions of the property, natural, or structures (including additions, 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. Responsible ownership and competent management are assumed.
- 12) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 13) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 14) The appraiser is not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made therefore.
- 15) The allocations of total value to land, buildings, or any fractional part or interest as shown in this report, is invalid if used separately in conjunction with any other appraisal.
- 16) The appraiser hereby certifies that the appraisal assignment was not based on a repeated minimum valuation, a specific valuation, or approval of a loan, and that the appraiser was competent and qualified to perform the appraisal assignment.

RESTRICTION UPON DISCLOSURE & USE

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

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



 Signature of Appraiser

MEMBERSHIP/USPAP

FAX
(907) 300-1000

Telephone
(907) 582-2424

Appraisal Company of Alaska

2940 ARCTIC BOULEVARD, SUITE 103
ANCHORAGE, ALASKA, 99503

December 18, 1998

Mr. Michael W. Price
Price & Price
Counselors & Attorneys at Law
550 W. Seventh Avenue, Suite 1370
Anchorage, AK 99501

Re: Update to the AHFC Office Building Appraisal

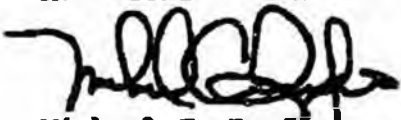
Dear Mr. Price:

I have reviewed the updated letter provided by Ken E. Kincaid, MAI and find that it meets the guidelines for Uniform Standards of Professional Appraisal Practice.

Considering the information that he provided as an addendum to the original report, I am in agreement with his final estimate of fair market value as of October 16, 1998 at \$6,650,000.

Sincerely,

APPRAISAL COMPANY OF ALASKA



Michael C. Renfro
Partner

PURCHASE AND SALE AGREEMENT AND ESCROW INSTRUCTIONS

This Purchase and Sale Agreement and Escrow Instructions ("Agreement") is entered into effective as of the 12th day of March, 1999 ("Effective Date") by and between THE UNION LABOR LIFE INSURANCE COMPANY ("Seller"), and ALASKA HOUSING FINANCE CORPORATION, a public corporation ("Buyer"), with reference to the following facts:

RECITALS

A. Seller is the owner of that certain real property and improvements thereon located in Anchorage, Alaska, as more particularly described as:

Tract C-2, Castle Heights Addition No. 3, according to the official plat thereof, filed under Plat No. 84-400, records of the Anchorage Recording District, Third Judicial District, ALASKA HOUSING FINANCE CORPORATION, (the "Property").

B. Buyer desires to purchase the Property from Seller and Seller desires to sell the Property to Buyer on the terms and conditions set forth herein.

NOW, THEREFORE, in reliance upon the preceding Recitals and in consideration of the mutual covenants set forth herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Seller and Buyer agree as follows:

ARTICLE ONE TERMS OF AGREEMENT

1.1 **AGREEMENT OF SALE.** Seller agrees to sell and convey the Property to Buyer, and Buyer agrees to purchase the Property from Seller, on the terms and conditions set forth herein.

1.2 **TERM.** The term of this Agreement shall commence on the date hereof and shall continue, unless sooner terminated in accordance with the provisions hereof, until the first to occur of (a) the date the Deed for the Property is recorded in the Office of the District Recorder for the Anchorage Recording District, (the "Closing Date"), or (b) the Termination Date. The "Termination Date" shall be June 20, 1999 or sixty (60) days after June 20, 1999, if such date is extended by Buyer pursuant to Section 2.2 herein.

ARTICLE TWO PURCHASE PRICE

2.1 **PURCHASE PRICE.** The purchase price for the Property (the "Purchase Price") shall be SIX MILLION SIX HUNDRED FIFTY THOUSAND DOLLARS AND NO CENTS (\$6,850,000.00).




2.2 PAYMENT OF THE PURCHASE PRICE. Within three (3) business days of approval by Buyer's Board of Directors as set forth in Paragraph 2.3C below, Buyer shall deposit with Escrow Holder the sum of FIFTY THOUSAND DOLLARS AND NO CENTS (\$50,000.00) as an earnest money deposit payable to the Escrow Holder's Trust Account. This deposit will be non-refundable except: (1) for the right of Buyer to rescind this Agreement under Sections 2.3A & B, 3.2(d) or 3.2(e) below or (2) unless Seller is unable to deliver approved title as set forth in Section 3.1 below. Buyer shall have until June 20, 1999 to close the purchase. The Buyer has the option to extend closing from June 20, 1999, to a date no later than 60 days after June 20, 1999 by depositing an additional \$50,000.00 with the Escrow Holder, which second deposit shall be credited to the sale price, which will be refundable to the extent that the initial earnest money deposit is non-refundable. The balance of the purchase price shall be paid in full to Escrow Holder as of the Closing Date.

2.3 CONTINGENCIES OF CLOSING. There shall be three contingencies of closing.

- A. Property Assessments. An environment, electrical, mechanical, structural, architectural and governmental compliance assessment may be conducted by Buyer within the time specified in Section 3.2(d) below;
- B. Approval of Legislature. The obligations of Buyer under this Agreement are subject to the approval of the purchase of the Property on the terms set forth in this Agreement by the Legislature of the State of Alaska during its 1999 Session. If the Legislature of the State of Alaska does not approve the purchase of the Property on the terms set forth herein, Buyer shall terminate this Agreement in writing and receive the return of its deposit. If the Legislature of the State of Alaska approves the purchase of the Property on the terms set forth in this Agreement and Buyer gives notice thereof to Seller by the end of such 1999 Session and such legislation becoming law, this Agreement shall continue in full force and effect, and Buyer shall have no further right to terminate this Agreement pursuant to this subsection. Buyer shall, within three (3) days after such approval, give notice of such legislative approval and notice of the action of the governor to the legislation, to Seller; and
- C. Approval of Board of Directors of Buyer. The obligations of Buyer under this Agreement are subject to the approval of the purchase of the Property on the terms set forth in this Agreement by the Board of Directors of the Alaska Housing Finance Corporation. If the Board of Directors of Buyer does not approve the purchase of the Property on the terms set forth in this Agreement, Buyer shall terminate this Agreement in writing and shall have its earnest money deposit returned. If the Board of Directors of Buyer approves the purchase of the Property on the terms set forth in this Agreement, this Agreement shall continue in full force and effect, and Buyer shall have no further right to terminate this Agreement pursuant to this subsection. Buyer shall, within three (3) days after such Board of Director approval, give notice of such approval (which shall state the date of such approval) to Seller.

Buyer agrees to schedule a meeting and vote of its Board of Directors ratifying this Agreement as expeditiously as possible after Seller accepts this Agreement by execution hereof, but in no event shall the date of such meeting be more than 30 days after such acceptance.

- D. Acceptance by Seller. The obligations of Seller under this Agreement are subject to approval of the terms of the purchase of property by the appropriate committee of the Board of Directors of Seller. Seller shall schedule a meeting of the appropriate committee and vote of that committee, which meeting shall not be held more than 30 days after such acceptance by Seller.

ARTICLE THREE
TITLE and "AS-IS" SALE

3.1 TITLE TO THE PROPERTY.

(a) Simultaneously with the execution of this Agreement, Seller will order a preliminary title report (PTR) of the Property which will be issued by First American Title Insurance Company (Title Company), through its issuing agent, and provide Buyer and its agents a copy thereof. Seller shall subsequently furnish to Buyer all supplemental title reports as the same become available in the course of Title Company's standard business practices. Buyer shall have the option for a period of fourteen (14) days from receipt of the PTR to notify Seller and Escrow Holder what exceptions to title first shown thereon, if any, are unacceptable to Buyer ("Disapproved Exceptions"); provided, however, that Buyer agrees to accept as such exceptions all leases, real property taxes on the Property which are not delinquent, all exceptions which arise as a result of the acts or omissions of Buyer or its agents, employees, or representatives, and easements, covenants and restrictions of record. All other matters shown on the PTR with respect to which Buyer fails to timely give notice shall be conclusively deemed to have been approved by Buyer and shall thereafter constitute part of "Approved Title" hereunder.

(b) In the event Buyer shall give notice within 14 days from the date of its receipt of the PTR under Section 3.1(a) of any Disapproved Exception, Seller shall have fifteen (15) business days after receipt thereof to notify Buyer and Escrow Holder either (1) that Seller will cure such Disapproved Exception and will provide Buyer with evidence reasonably satisfactory to Buyer that such Disapproved Exception has been cured or will be cured on or before the Closing Date (in which case Seller may by notice to Buyer and Escrow Holder at any time during the term of this Agreement extend the Closing Date and if necessary the Termination Date for such period as may be required to effect such cure); or (2) that Seller will not cure such Disapproved Exception. Seller's failure to give such notice with respect to a Disapproved Exception shall conclusively constitute an election under clause (2) of this Section 3.1(b) to not cure such Disapproved Exception. In the event Seller elects or is deemed to elect not to cure a Disapproved Exception, or in the event Seller elects to cure

any Disapproved Exception but fails to do so by the Closing Date, Buyer may, in its discretion, cure such Disapproved Exception (in which case Buyer may, by notice to Seller and Escrow Holder, at any time during the term of this Agreement extend the Closing Date and, if necessary, the Termination Date for such period as may be required to effect such cure). In the event Buyer effects such cure, the Purchase Price of the Property shall be reduced by any cost incurred by Buyer in effecting the cure, and Buyer shall give notice to Escrow Holder of any such reduction in the Purchase Price prior to Closing. Buyer hereby agrees to accept the procurement by Seller of a commitment for the issuance of a standard Owner's Policy of Title Insurance by Title Company in the face amount of the Purchase Price insuring Approved Title to the Property in Buyer (the "Title Policy") containing appropriate endorsements as a cure by Seller of any Disapproved Exception.

(c) In the event Seller elects or is deemed to elect not to cure any Disapproved Exception under clause (2) of Section 3.1(b), Buyer shall have the option at any time to terminate this Agreement by notice to Seller and Escrow Holder to that effect. In the event Seller elects to cure any Disapproved Exception, but fails to do so by the Closing Date, Buyer shall have the option as of the Closing Date to terminate this Agreement by notice to Seller and Escrow Holder to that effect. Buyer's failure to either give such notice or to terminate with respect to any Disapproved Exception shall conclusively constitute Buyer's waiver of all of its objections thereto, in which case Seller shall have no obligation to cure such Disapproved Exception and it shall thereafter constitute part of "Approved Title" hereunder.

3.2 "AS-IS" SALE/BUYER'S RIGHT TO CONDUCT ENVIRONMENTAL ASSESSMENT AND OTHER INSPECTIONS.

(a) Buyer has entered into this Agreement in reliance solely upon Buyer's ability to make its own investigation of the title, environmental, economic and legal conditions of the property, and Buyer is not relying upon any representations and warranties of Seller concerning the property. Buyer further acknowledges that Buyer has not received from Seller any financial, tax, legal, architectural, engineering, property management or other advice with respect to the property or the use thereof contemplated by this Agreement and that Buyer is relying solely upon the advice of its own advisors in entering into this Agreement except as specifically set forth in Article 5 below.

(b) Buyer acknowledges that notwithstanding any prior oral or written representations, statements, documents or understandings, this Agreement, and any simultaneous disclosure statements, if any, constitutes the entire understanding of the parties with respect to the subject matter hereof and supercedes all such prior oral or written representations, statements, documents or understandings and will remain unaffected by any representation, statement or understanding subsequent to the date of this agreement or the date of a duly executed amendment to this Agreement. Buyer further acknowledges that, except as expressly set forth in Article 5 below, neither Seller nor its officers, directors, employees, agents or representatives have previously or does under this Agreement make

any representation or warranty of any kind whatsoever, either express or implied, with respect to the property or any related matter and that the property shall be sold to Buyer hereunder in an "AS-IS" condition.

(c) In particular, but without limitation of the foregoing, no representations or warranties have been made or are made hereunder with respect to the condition, habitability, size, usable area, occupation or management of the property, the intended uses of the property, the boundary lines of or any encroachments or easements affecting the property, the presence or availability of water or sewage disposal on or to the property, and the property's compliance with applicable statutes, laws, ordinances, regulations or requirements relating to the leasing, zoning, subdivision, planning, building, fire, safety, health, hazardous material or environmental matters or the property's compliance with covenants, conditions, and restrictions, other local, municipal, regional, state or federal requirements, or other statutes, laws, codes, ordinances, regulations or requirements.

(d) Seller shall within 7 days from execution of this Agreement provide Buyer with any environmental reports/assessments in its possession regarding the Property. Regardless thereof, Buyer shall have the right after execution of this Agreement, at Buyer's expense, to undertake a Environmental Assessment of the Property. Such Environmental Assessment shall be completed within 45 days from execution of this Agreement. If the Assessment reveals the presence of hazardous substances at a level unacceptable to Buyer then within the inspection period, Buyer may rescind this agreement and have their earnest money deposit returned to it. A copy of any Assessment relied upon by Buyer to rescind this Agreement must be submitted to Seller, who may retain such copy.

(e) Seller shall within 7 days from execution of this Agreement provide Buyer with any property inspection reports/assessments in its possession regarding the electrical, mechanical or structural condition of the Property or any report concerning the Property's current governmental compliance with such laws as building codes, zoning ordinances or American with Disabilities Act. Regardless thereof, Buyer shall have the right after execution of this Agreement, at Buyer's expense, to inspect the Property and improvements for its electrical, mechanical, and structural condition or its current compliance with governmental restrictions. Such inspections shall be completed within 45 days from execution of this Agreement. If the inspections reveal any material defect or defects which in Buyer's sole discretion impacts the value or utility of the Property for its intended purpose, then within the inspection period, Buyer may rescind this agreement and have their earnest money deposit returned to it. A copy of any inspection report relied upon by Buyer to rescind this Agreement must be submitted to Seller, who may retain such copy.

(f) Buyer shall provide Seller with not less than five (5) days notice of the date and time of any inspections referred to in Section 3.2.(e). Prior to any inspections, Buyer shall provide to Seller, certificates or other evidence satisfactory to Seller that there is in effect liability insurance with a minimum of \$1,000,000.00 coverage that insures Seller against

any liability, claims or damages arising from inspections on the Property conducted by Buyer or Buyer's representatives or contractors.

ARTICLE FOUR **CLOSING AND ESCROW**

4.1 DEPOSIT WITH ESCROW HOLDER AND ESCROW INSTRUCTIONS. Upon execution of this Agreement, the Seller shall deposit an executed counterpart hereof, with First American Title as Escrow Holder, and this Agreement together with the "General Provisions" of Escrow Holder's standard preprinted form of escrow instructions shall serve as instructions to Escrow Holder for consummation of the purchase and sale contemplated hereby. Seller and Buyer agree to execute such additional and supplementary escrow instructions as may be appropriate to enable the Escrow Holder to comply with the terms of this Agreement; provided, however, that in the event of any conflict between the provisions of this Agreement and any supplementary escrow instructions, including such General Provisions, the terms of the Agreement shall control.

4.2 CLOSING. The closing hereunder (the "Closing") and the execution and exchange of documents and the delivery of all items to be made at the Closing under the terms of this Agreement shall be made at the offices of Escrow Holder; provided, however, that all such actions shall be effective as of the Closing Date, unless expressly indicated otherwise.

4.3 DELIVERY BY SELLER. At the Closing, Seller shall deposit with Escrow Holder the following:

- (a) A duly executed and acknowledged Warranty Deed to the Real Property (the "Deed");
- (b) Assignment of Lessor's interest in all leases in effect as of the date of closing;
- (c) Estoppel Certificates executed by all tenants in the building other than Buyer, and.
- (d) All other documents and instruments called for hereunder which have not been previously delivered.

4.4 DELIVERY BY BUYER. At the Closing, Buyer shall deposit with Escrow Holder the following:

- (a) Sufficient funds to pay the full Purchase Price; and
- (b) All other documents and instruments called for hereunder which have not been previously delivered.

4.5 OTHER INSTRUMENTS. Seller and Buyer shall each deposit with Escrow Holder such other instruments as are reasonably requested by Escrow Holder or otherwise required to close the escrow and consummate the purchase of the Property in accordance with the terms hereof and to obtain the issuance of the Title Policy for the Property.

4.6 PRORATIONS AND APPORTIONMENTS. All taxes, assessments and rents associated with closing the transaction contemplated hereunder shall be prorated as of closing. All security deposits for tenants will be transferred in whole to Buyer at closing.

4.7 EXPENSES AND CLOSING COSTS. Expenses and closing costs shall be paid as follows: :

- i. Seller shall pay the cost of securing an extended coverage, ALTA owner's title insurance policy;
- ii. Buyer to pay for any costs or fees associated with financing the purchase;
- iii. Buyer and Seller agree to equally pay recording and escrow fees;
- iv. All utilities shall be transferred to Buyer as of the day of closing;
- v. Each party shall pay it's own attorneys or consultant's fees (except as provided in Paragraph 8.2 below); and
- vi. Any cost not specifically enumerated herein is to be equally divided between Seller and Buyer.

4.8 CLOSE OF ESCROW. Provided that Escrow Holder has received the documents and funds described herein and has not received notice from any party either that an agreement of another party hereunder has not been performed, that a condition set forth herein has not been satisfied or waived or that this Agreement has terminated (by its terms or by an election duly made hereunder), and further provided that the issuance of, or an unconditional commitment to issue, the Title Policy has been obtained, Escrow Holder is authorized and instructed at the earliest possible time after the Closing Date to:

- (a) Record the Deed with the District Recorder for the Anchorage Recording District; and
- (b) Deliver the Title Policy, and all other items deposited by Seller in Escrow with respect to the Property, with a copy thereof to Buyer.

4.9 DISBURSEMENT OF FUNDS. Immediately upon recording, Escrow Holder shall disburse any amounts due to Seller (as adjusted to reflect Seller's costs of escrow hereunder), pursuant to separate instructions to Escrow Holder solely from Seller.

4.10 NOTIFICATION: CLOSING STATEMENTS. In the event Escrow Holder cannot comply with the instructions herein or to be provided, Escrow Holder is not authorized to cause the recording of the foregoing documents, but instead is to notify Seller and Buyer

of such fact without delay. As soon as reasonably practicable after the Closing Date, Escrow Holder shall deliver to each party, a true, correct and complete copy of its respective Closing Statement, in form customarily prepared by Escrow Holder, and all other items in Escrow Holder's possession to which such party is entitled hereunder.

ARTICLE FIVE
REPRESENTATIONS, WARRANTIES AND COVENANTS

5.1 BUYER'S REPRESENTATIONS. In order to induce Seller to enter into this Agreement and the transactions contemplated hereunder, Buyer hereby makes the following representations and warranties as of the date hereof and again as of the Closing Date:

(a) This Agreement and all documents, if any, executed by Buyer which are to be delivered to Seller hereunder will be duly authorized, executed and delivered by Buyer, are and as of the Closing Date will be legal, valid and binding obligations of Buyer and do not and as of Closing Date will not violate any provisions of any agreement or judicial order to which Buyer is a party or to which it is subject.

(b) No approvals or authorizations of this transaction other than approval by the Legislature as set forth in Section 2.3.B and approval by the Board of Directors of Buyer as set forth in Section 2.3.C are required for this Agreement to be legal and binding upon Buyer.

5.2 SELLER'S REPRESENTATIONS. In order to induce Buyer to enter into this Agreement and the transactions contemplated hereunder, Seller hereby makes the following representations and warranties as of the date hereof and again as of the Closing Date:

(a) Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Maryland with full power and authority to enter into and comply with the terms of this Agreement.

(b) This Agreement and all documents executed by Seller which are to be delivered to Buyer hereunder will be duly authorized, executed and delivered by Seller, are and as of the Closing Date will be legal, valid and binding obligations of Seller, and do not and as of Closing Date will not violate any provisions of any agreement or judicial order to which Seller is a party or to which it is subject.

ARTICLE SIX
CASUALTY OR CONDEMNATION

6.1 CONDEMNATION OF PROPERTY.

(a) In the event a governmental entity commences eminent domain proceedings to take a material portion of the Property after the date hereof and prior to the Closing Date, then either Seller or Buyer shall have the option to terminate this Agreement by written notice to the other and Escrow Holder within five (5) business days after Buyer, Seller and Escrow Holder received notice of such commencement.

(b) In the event a governmental entity commences eminent domain proceedings to take any part of the Property after the date hereof and prior to the Closing Date and this Agreement is not terminated pursuant to Section 6.1(a) above as result thereof, then the Closing Date shall occur as scheduled notwithstanding such proceeding; however, that Seller's interest in all awards arising out of such proceedings shall be assigned to Buyer as of the Closing Date.

6.2 NO DUTY TO RESTORE. Buyer acknowledges and agrees that in no event shall Seller have any obligation to repair or restore the Property or any portion thereof or any other liability hereunder as a result of any casualty or condemnation.

ARTICLE SEVEN
DEFAULT AND TERMINATION

7.1 DEFAULT BY SELLER. In the event Seller fails to perform any of its obligations or is otherwise in default hereunder, Buyer shall have the right to give notice to Seller and Escrow Holder specifically setting forth the nature of such failure and stating that Seller shall have a period of ten (10) days to cure such failure. If Seller has not cured such failure within such period (or, if such failure is not capable of being cured within ten (10) days, or Seller has not commenced in good faith the curing of such failure within such period and does not diligently thereafter complete such cure prior to the Closing Date or if applicable, the Termination Date), Buyer shall have the right to exercise any of the following mutually exclusive remedies:

(a) Waive such failure and proceed to the Closing Date with no reduction in the Purchase Price.

(b) Terminate this Agreement by notice to Seller and Escrow Holder to that effect, in which event Buyer and Seller shall execute supplemental escrow instructions prepared by Escrow Holder canceling the escrow opened hereunder, and unconditionally releasing each other from all past and future obligations and liabilities under this Agreement and instructing Escrow Holder to immediately disburse the Deposit (including all interest earned on the investment thereof) to Buyer.

(c) File an action in any court of competent jurisdiction to enforce any other remedies available to Buyer with respect to such breach hereunder, at law or in equity.

7.2 DEFAULT BY BUYER. In the event Buyer fails to perform any of its obligations or is otherwise in default hereunder, Seller shall have the right to give notice to Buyer and Escrow Holder specifically setting forth the nature of such failure and stating that Buyer shall have a period of three (3) business days to cure any failure to either pay money or perform by a date certain and a period of ten (10) days to cure any other failure. If Buyer has not cured such failure within the applicable period (or, if any such other failure is not capable of being cured within ten (10) days), Buyer has not commenced in good faith the curing of such failure within such period and does not diligently thereafter complete such cure prior to the Closing Date or if applicable, the Termination Date), Seller shall have the right to waive such failure and proceed to the Closing or to immediately terminate the Agreement.

7.3 EFFECT OF TERMINATION.

(a) Upon the termination of this Agreement for any reason, neither Buyer nor Seller shall have any further liability or obligation hereunder. Escrow Holder shall within five (5) business days thereafter, return to the Seller all items previously deposited with Escrow Holder in connection with this escrow, including the non-refundable earnest money deposit.

(b) In the event this Agreement is terminated pursuant to Section 7.1.(b) or 7.2 above, the party in default shall immediately upon demand from Escrow Holder pay all escrow costs and cancellation charges.

(c) In the event Buyer or Seller timely elects to terminate this Agreement in accordance with Section 3.1(c) or 6.1(a) above, Buyer and Seller shall execute supplemental escrow instructions prepared by Escrow Holder canceling the escrow opened hereunder, unconditionally releasing each other from all past and future obligations and liabilities under this Agreement and instructing Escrow Holder to immediately disburse the Purchase Price deposited to Buyer. Seller shall immediately upon demand from Escrow Holder pay all escrow costs and cancellation charges.

ARTICLE EIGHT
MISCELLANEOUS

8.1 NOTICES. Any notice, approval or other communication required or permitted to be given under this Agreement shall be in writing and shall be sent by a recognized private courier company or by United States mail, registered or certified mail, postage prepaid, return receipt requested, and addressed as follows:

If to Seller: David S. Glasner, Director, Real Estate Investments
The Union Labor Life Insurance Company
111 Massachusetts Avenue NW
Washington, DC 20001-1461
Phone: (202) 682-4905

cc: Suzanna Cherot
1127 West 7th Avenue
Anchorage, AK 99501
(907) 278-1550

If to Buyer: Dan Fauske, Executive Director
4300 Boniface Parkway
Anchorage, AK 99504
907-338-8100

cc: Pacific Realty
880 N. Street, Suite 303
Anchorage, AK 99501
907-274-0452

If to Escrow Holder: Terry Bryan, President
First American Title of Alaska
3330 Arctic Blvd, Suite 103
Anchorage, AK 99503
907-563-5263

Such notices shall be deemed delivered upon delivery or refusal to accept delivery as indicated in the U.S. Postal Service return receipt or similar advice from such courier company, as the case may be.

8.2 BROKERS AND FINDERS. Seller shall be responsible for all broker's and finder's fees.

8.3 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations, covenants and warranties of the parties contained herein or in any document, certificate or statement delivered pursuant hereto are intended to and shall remain true and correct at all times during the term of this Agreement and shall be deemed to be material. Each such representation and warranty and all indemnities contained herein shall survive the Closing Date and any other termination of this Agreement.

8.4 FURTHER ACTS. Each party shall, at the request of the other, execute, acknowledge (if appropriate) and deliver whatever additional documents, and do such other acts, as may be reasonably required in order to accomplish the intent and purposes

of this Agreement.

8.5 AMENDMENTS. This Agreement and the Exhibits hereto and any other separate disclosure statements, if any, constitute the entire and complete agreement and understanding, and supersede all prior and contemporaneous agreements and understandings, between the parties hereto relating to the subject matter hereof. This Agreement may be amended or modified only by a written instrument executed by the party asserted to be bound thereby.

8.6 ATTORNEYS' FEES. In the event either Buyer or Seller brings any suit or other proceedings with respect to the subject matter or to enforce any provision of this Agreement, the prevailing party as determined by the court, shall, in addition to such other relief as may be awarded, be entitled to its reasonable attorneys' fees, expenses and costs of investigation.

8.7 VALIDITY. In the event any provision of this Agreement, or the application thereof in a particular context is held unenforceable, invalid or in violation of law by any court or quasi-judicial body of competent jurisdiction, then the application of such provision in other contexts shall not be affected thereby and, in all events, the remaining provisions hereof shall remain in full force and effect.

8.8 NO WAIVER. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof, nor shall any waiver constitute a continuing waiver. Except as otherwise provided in this Agreement, no waiver shall be binding unless executed by the party making the waiver.

8.9 POSSESSION. Possession of the Property shall be delivered to Buyer on the Closing Date.

8.10 NO ASSIGNMENT. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, however, the parties may not assign or otherwise transfer this Agreement or the rights thereto, whether voluntarily, involuntarily, by operation of law or otherwise.

8.11 INTERPRETATION. Words in the singular shall be deemed to include the plural and vice-versa and words in a particular gender shall be deemed to include each other gender. The captions and headings of the Articles and Sections of this Agreement are for convenience of reference only and shall not be deemed to define or limit the provisions hereof. Time shall be of the essence of every provision of this Agreement.

8.12 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Alaska.

8.13 COUNTERPARTS. This Agreement may be executed in one or more counterparts by the parties hereto. All counterparts shall be construed together and shall constitute one agreement.

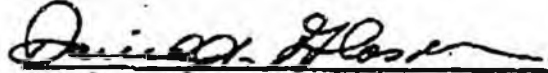
8.14 EXHIBITS. Any exhibits attached hereto and referred to herein are hereby incorporated herein as though fully set forth at length.

8.15 REPORTING RESPONSIBILITY. Escrow Holder shall prepare and file all reports and statements required by law, if any.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

SELLER:

THE UNION LABOR LIFE INSURANCE
COMPANY

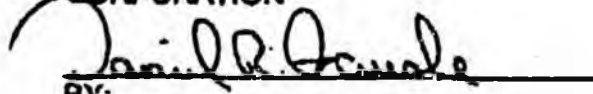


BY: ~~DAVID E. GLASER~~

ITS: ~~Director, REAL ESTATE~~
INVESTMENTS

BUYER:

ALASKA HOUSING FINANCE
CORPORATION



BY:

ITS:

HB

191

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 29, 1999

FURTHER REFERRALS:

Date of Committee Action: 2/7/00

The FINANCE Committee considered:

HB 191

HOUSE BILL NO. 191

CHARTER SCHOOLS

"An Act relating to charter schools; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 191 (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) DEED

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
	Therriault			X	
	Bunde			✓	
	Foster	X			
	Ausherman		X		
	Grussendorf		X		
	Moses		X		
	G. Davis			X	
	Williams		X		
		X			

CO CHAIR'S SIGNATURE
Therriault [unclear]

FISCAL NOTE

STATE OF ALASKA
2000 LEGISLATIVE SESSION

BILL NO. CS HB 191 (FIN)

Revision Date/Time (Note if correction) _____	Dept. Affected <u>Education & Early Development</u>
Title <u>An Act relating to charter schools</u>	BRU <u>Teaching and Learning Support</u>
	Component <u>Quality School</u>
Sponsor <u>Rep. Dyson</u>	
Requester <u>House Finance</u>	Component No. <u>2147</u>

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	102.3	105.0	107.0	109.0	111.0	113.0
Travel	5.0	5.0	5.0	5.0	5.0	5.0
Contractual	50.0	50.0	50.0	50.0	50.0	50.0
Supplies	4.0	4.0	4.0	4.0	4.0	4.0
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	161.3	164.0	166.0	168.0	170.0	172.0

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

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

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	161.3	164.0	166.0	168.0	170.0	172.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	161.3	164.0	166.0	168.0	170.0	172.0

Estimate of any current year (FY2000) cost: 0.0

POSITIONS

Full-time	1					
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Please refer to the attached sheet for a detailed description.

Prepared by: Barbara Thompson
 Division: Teaching and Learning Support
 Approved by: Richard S. Cross, Commissioner
 Agency: Department of Education & Early Development

Phone: 465-8727
 Date/Time: 01/28/00
 Date: 1/31/2000

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Fiscal Note Description for CSHB 191
Alaska Department of Education & Early Development
1/28/00

Section 1 of CSHB 191 removes the former requirements that the State Board of Education & Early Development may not approve more than 30 charter schools to operate in the state at one time and shall approve charter schools in a geographically balanced manner. Amended language raises the cap on the number of charter schools to be allowed from 30 to 60. Language related to approval of charter schools geographically is eliminated.

Section 2 requires the inclusion of a statement showing itemized costs or administrative or other services provided by a district to its charter schools.

Section 3 states that the annual charter school budget shall be not less than the basic need for the charter school and must reflect the itemization and per student value.

Section 4 requires districts to itemize services provided to the charter schools and itemize services and programs whose costs are allocated districtwide. Charter schools may elect not to receive services, except for administration, districtwide programs or services or other services required by law.

Section 5 extends allowable charter school contract time from 5 years to 10 years

Personal Services – 102,205

One new full-time Education Specialist II, Range 21, is needed to administer the charter schools application process; provide technical assistance to school district and charter school staff who are planning for or initiating a charter school; assure compliance with state charter school statutes and regulations. assure quality programs are developed and supported, develop and maintain a charter schools regulations process; and evaluate the effectiveness of Alaska's charter schools.
(\$77,000)

Funds for one .15 FTE Grants Administrator II will be needed to address fiscal issues and complete fiscal documents related to charter schools grant applications and billings. (\$8,205)

Funds for one .50 FTE Administrative Clerk II will be needed to provide clerical support to the Education Specialist and for the application process. (\$17,000)

Although the grant administrator and administrative clerk are existing positions, current federal fund sources are not sufficient to fund the portions of the charter schools duties that would be assigned to them.

Travel - \$5,000

Travel funding will need to be provided for a limited number of technical assistance and/or compliance reviews of charter schools. (\$5,000)

Supplies - \$4,000

Funding will be needed for the purchase of general office supplies and materials for meetings related to charter schools. (\$4,000)

Total Request for Year 1 - \$161,205