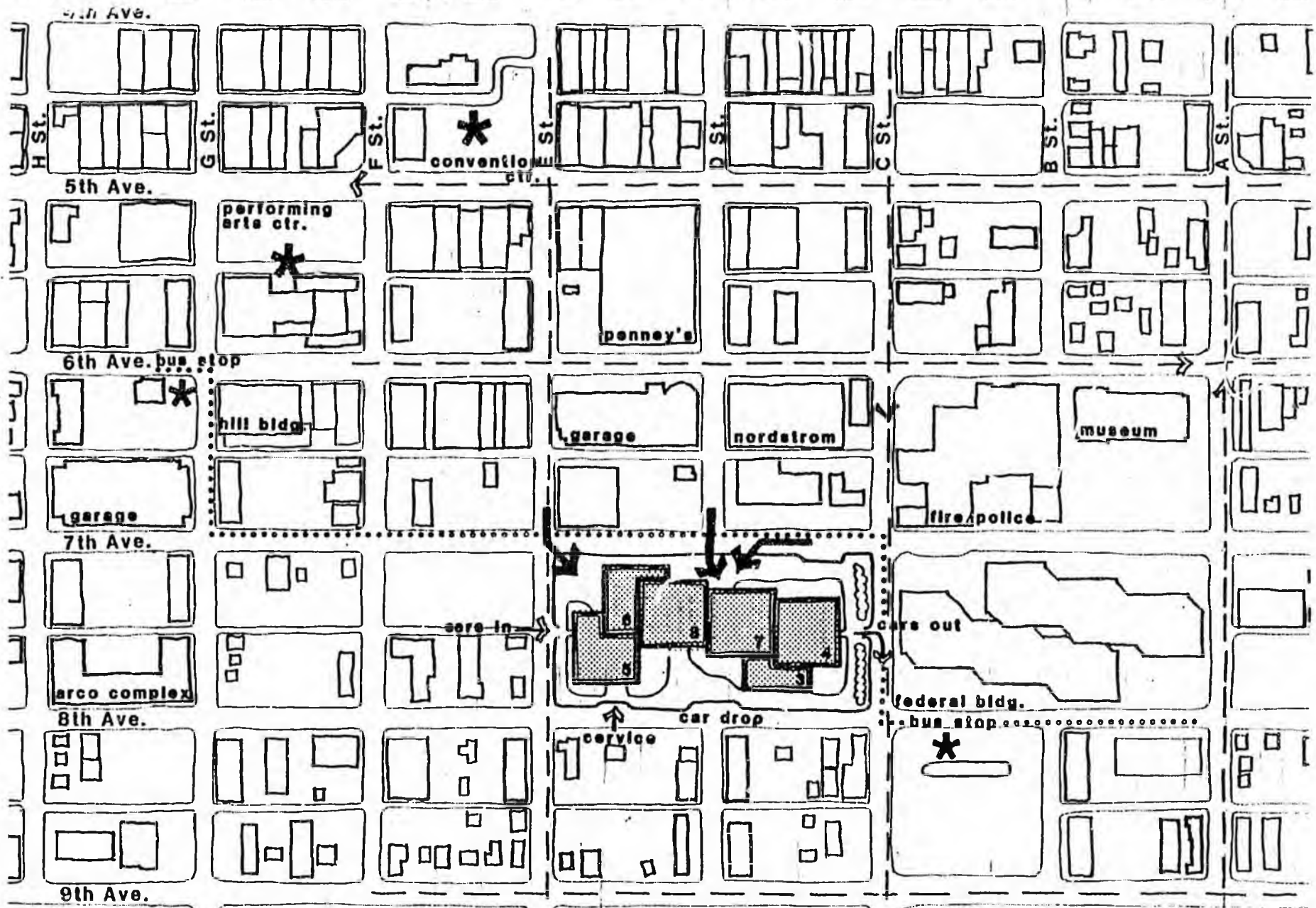


ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

3646 HSTA FBKS. / ANCH. OFFICE COMPLEX - HUMAN RIGHTS COMM. 52



- Car Access
- Main Pedestrian Access
- Main Arterials

- ⋯ Buffer
- 3 No. of Stories
- ⋯ Bus Route

Exhibit 8C
Site II Building Diagram

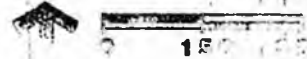




Exhibit 8D
Site II Photo

-111-

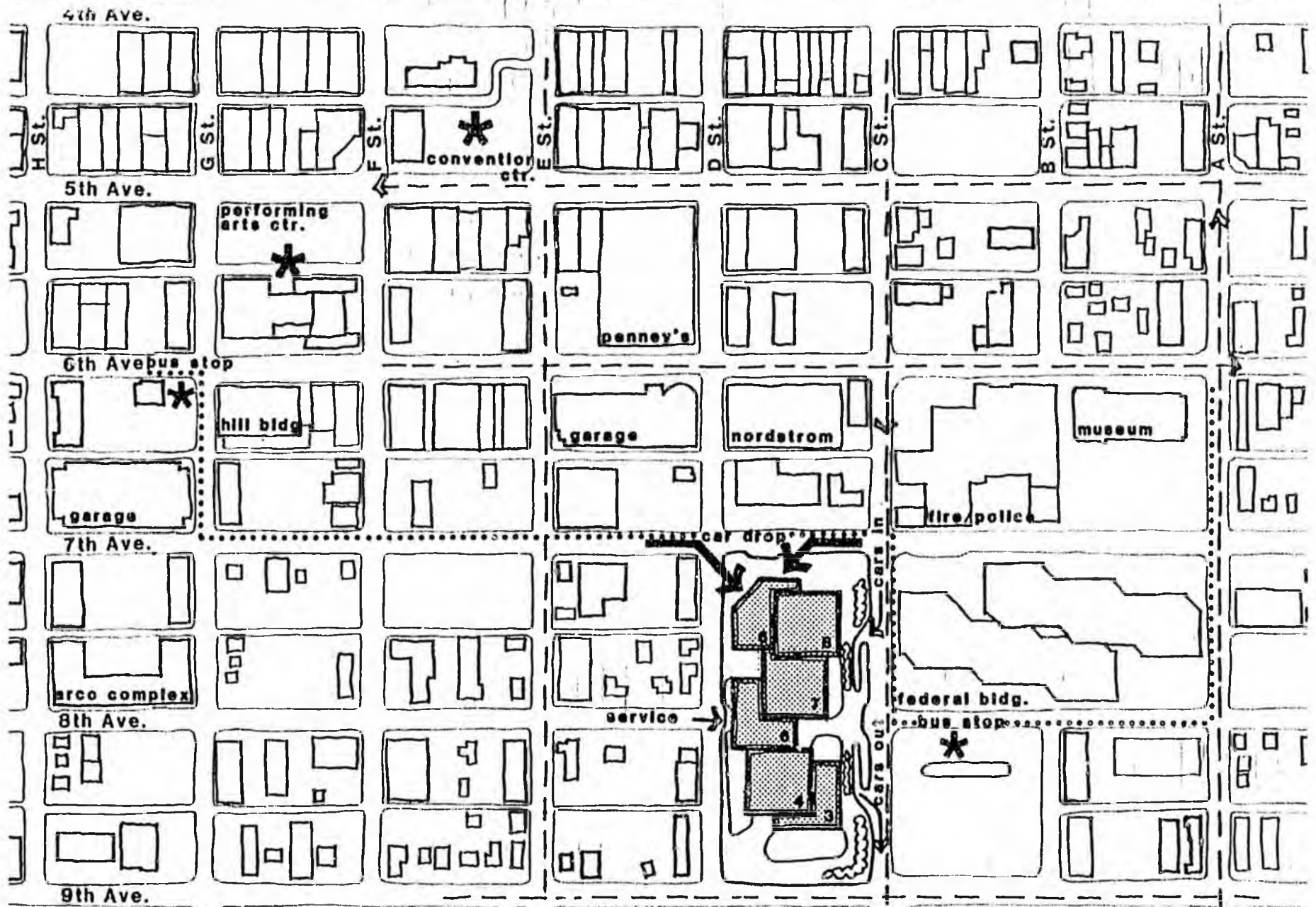
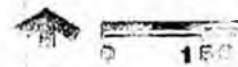


Exhibit 8E
Site III Building Diagram



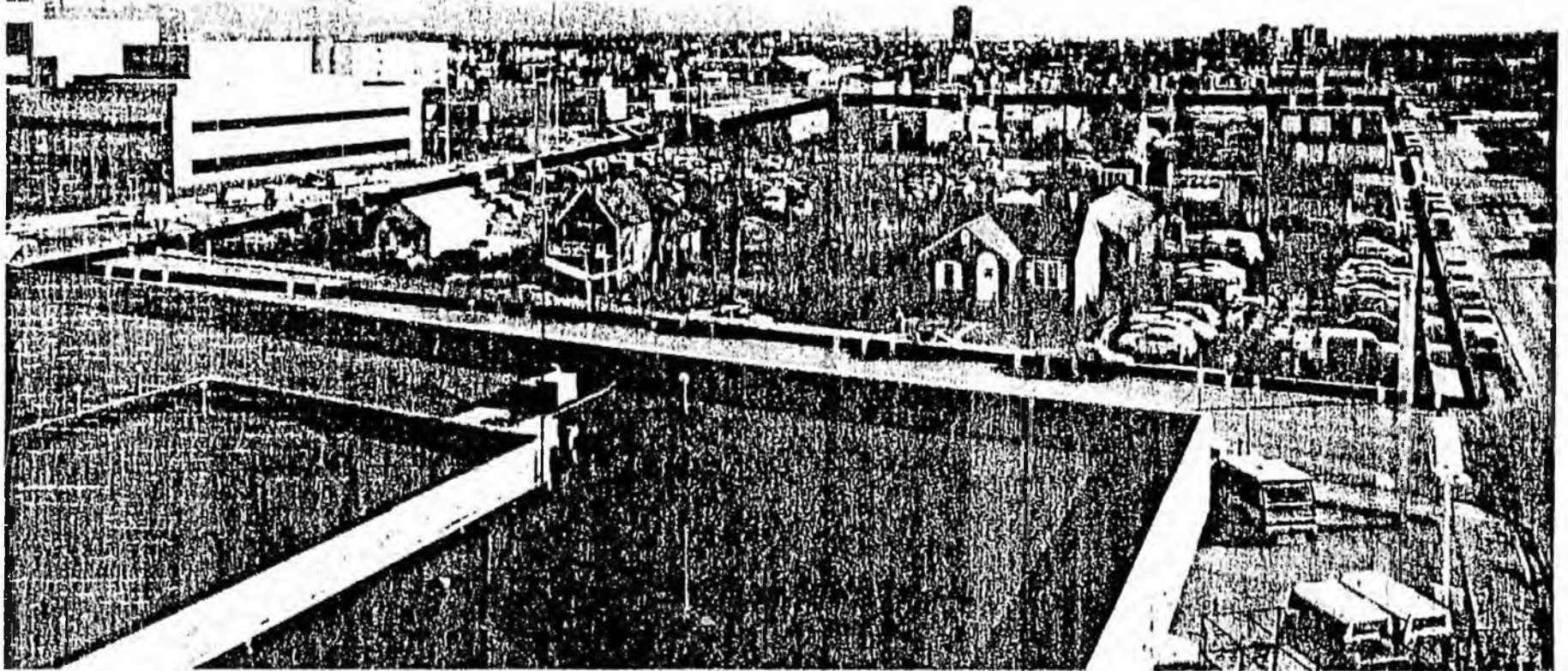
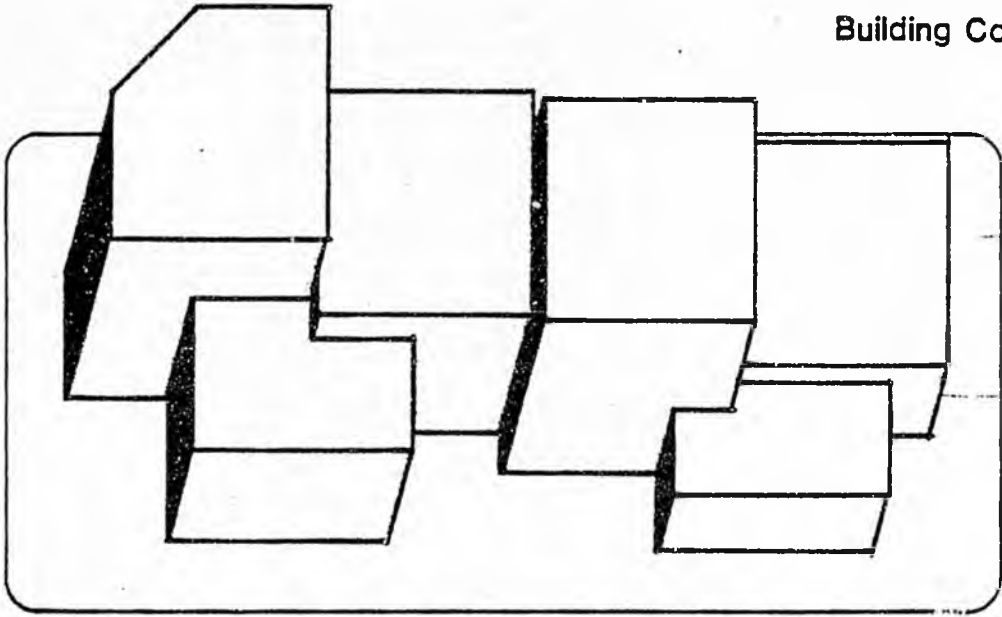
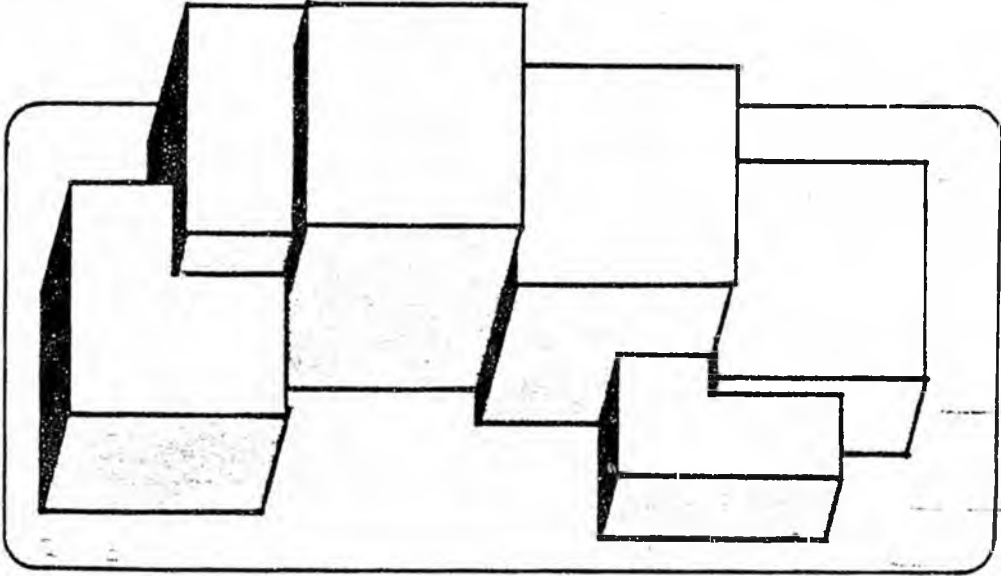


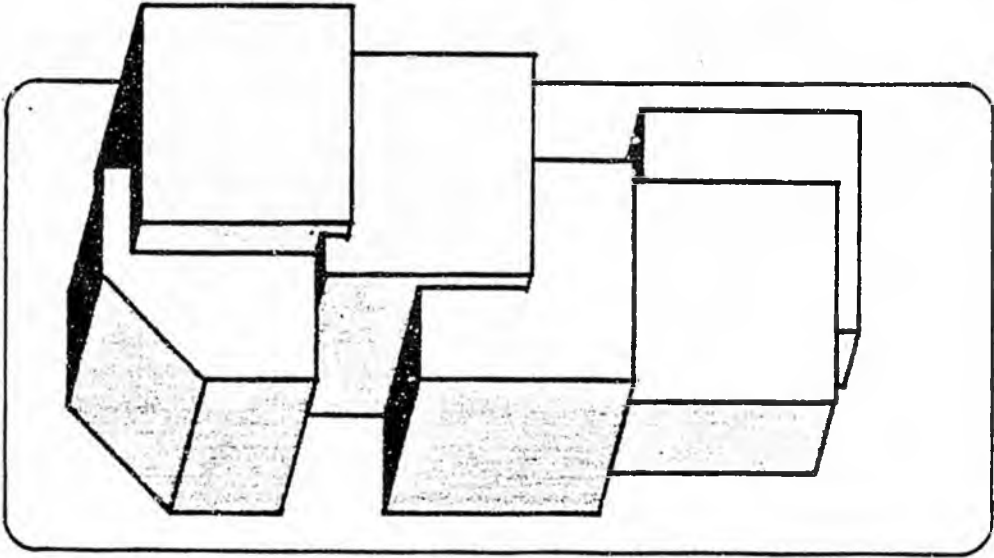
Exhibit of
Site III Photo



Site I



Site II



Site III

B. Preliminary Cost Analysis

The option chosen by the State for a building program is estimated to have a current construction cost, exclusive of parking, of approximately \$55,000,000 for the recommended 426,000 GSF building. Inflation over the construction period, beginning in the summer of 1982 and continuing through 1984, should add an additional \$10,000,000 to the construction budget assuming an inflation rate of 1% to 1½% per month.

A two level below grade parking structure will add a cost of approximately \$16,000,000. Actual construction costs are, as a result, estimated to be \$81,000,000 provided a quality office building is developed, construction is expedited, and site acquisition and foundation work is initiated by June of 1982.

Land acquisition, site development, and utility upgrade cost allowances of \$14,000,000 are indicated for a three block site. The total Project cost is estimated at \$95,000,000. Exhibit 8I summarizes these total Project Costs.

A land acquisition, site preparation and development cost allowance of \$14,000,000 was originally used as a planning figure by the Consultant. Upon further analysis it was determined that these costs would actually range between \$8 and \$10 million of which approximately 80% to 85% would be for land acquisition and the remainder would be for planning and other costs. An estimated additional \$600,000 for Project construction administration will be needed in FY-83. Exhibit 8I summarizes these Project costs and compares alternative annual space occupancy costs.

Comparative Cost Analysis

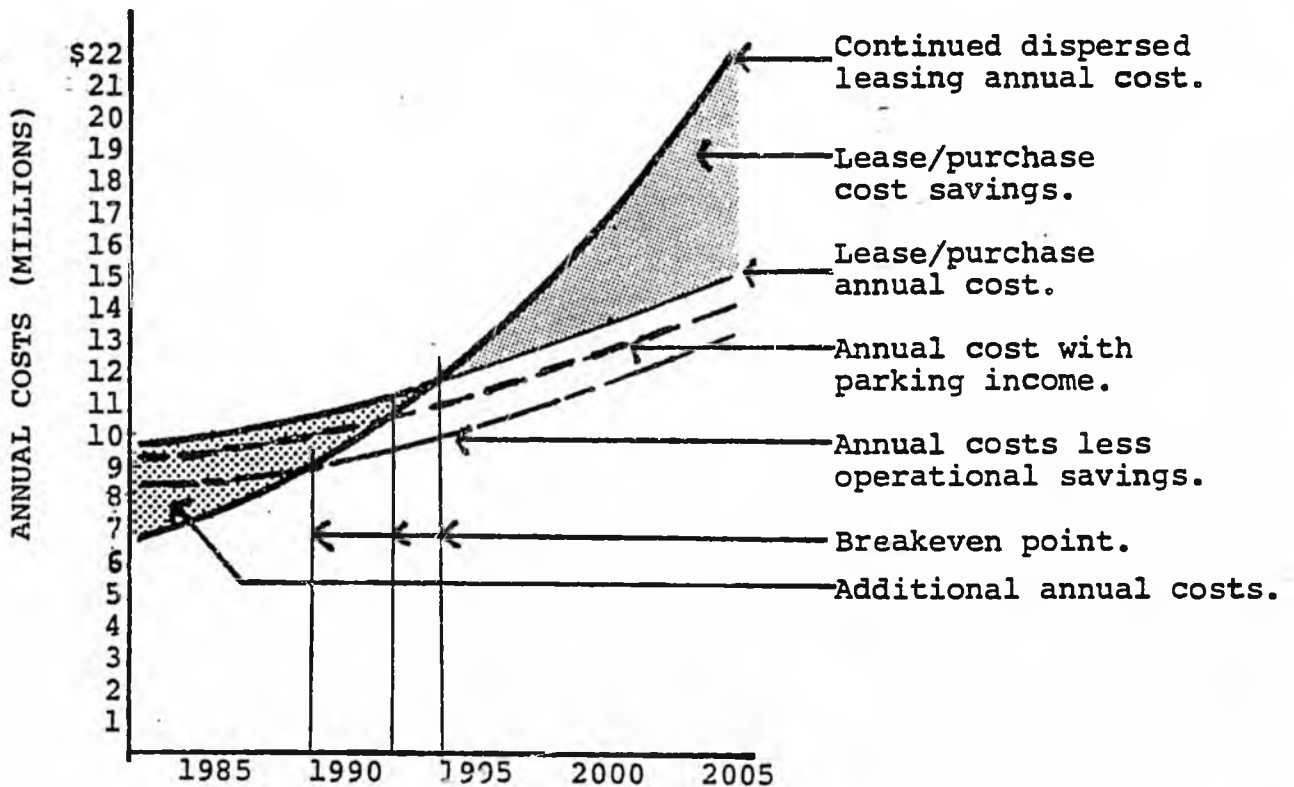
Although current leasing costs, including maintenance, average approximately \$13 per square foot per year, by 1985, with lease renewals and the expansion of the lease space inventory, the average annual rent will approximate \$21 per square foot even if all existing, class "C" space is retained in the State space inventory. For the 345,126 rentable square feet needed to "replace" the 426,000 GSF building, this equates to an annual cost of approximately \$7,247,646. Average annual costs anticipated by the lease/purchase of the new State Office Building, including the cost of providing two levels of below grade parking, 10.5% tax free financing, and an \$81,000,000 total construction cost, will approximate \$8,952,807 in 1985. These and other cost relationships are shown on Exhibit 8I.

The otherwise required leasing costs will escalate at an annual rate of approximately 6% per year while the costs associated with a lease/purchase plan will escalate at a rate of less than 2% per year. This differential results from the favorable financing rate anticipated by the State, the fixed mortgage, the very long term lease, and the very energy efficient design of the building.

The lease/purchase option will incur an annual operating cost of \$3.50 per square foot for the 322,548 NSF new State Office Building. This additional cost of \$1,128,918 increases the total annual cost to \$10,081,725. Annual costs escalate modestly to \$12,050,000 in the tenth year, \$13,300,000 in the fifteenth year, and \$14,690,000 by the twentieth year. In contrast, the annual cost of the existing lease program escalates at 6% per year to \$12,240,000 in the tenth year, \$16,380,000 in the fifteenth year, and \$21,930,000 in the twentieth year. These costs are presented in Exhibit 8H.

Exhibit 8H

Comparative Cost Analysis



Even without considering the economics of consolidation or appreciation of land values, the lease/purchase alternative has an annual cost that is less than the expected costs of a continued dispersed leasing program by the tenth year. If deduction is made for any parking income, the breakeven point occurs during the eighth year. If the 1,700,000 annual operational cost savings projected in Chapter III are included in the analysis, annual costs of the lease/purchase option are reduced to \$8,381,725 in the first year. Applying the escalation factors, lease/purchase annual costs are less than annual leasing costs by the fifth year.

Total cumulative costs over thirty years for the lease/purchase option have a present value of \$108,000,000 at a 10.5% discount rate. The current leasing program has a present value of \$118,000,000 over the same timeframe. The recommended lease/purchase option reduces life-cycle costs by \$10,000,000. The combination of a \$1,700,000 annual cost savings and a \$10,000,000 life-cycle cost reduction represents an annualized cost savings of approximately \$2,800,000. This provides the State with a 28% annual return on an initial site procurement investment of \$10,000,000.

Exhibit 8I

Anchorage State Office Building

Cost Analysis

Costs for a 1985 Building of 426,000 GSF
 without parking \$ 65,000,000

Parking Costs (2 Levels @ \$8,000,000 Per Level) 16,000,000

Total Cost to Developer \$ 81,000,000

Land Acquisition and Site Preparation
 and Development Bid Package \$8 to 10,000,000

(Building Costs Include Contingency for Inflation,
 Developer Costs, and Design and Site) \$ 91,000,000

Assumptions

1. Scale of 322,548 NSF (426,000 GSF); 1,800 personnel
2. 35% Parking Allocation
3. 40,000 NSF Lease/Special Space Not Included
4. No Parking Revenues
5. 10.5% Financing
6. No Land Cost Involved

ALTERNATIVE SPACE ACQUISITION STRATEGY	RENT BASIS	ANNUAL COST	BREAKEVEN
Current Situation (1)	260,000 NSF	\$3,380,000	-
Projected 1985 (with current lease situation) (1)	345,126 NSF	\$7,247,646	-
Lease/Purchase with Parking	322,548 NSF	\$8,952,807	10 years
Lease/Purchase No Parking (2)	322,548 NSF	\$7,736,994	2 years

(1) Annual cost estimates do not include the anticipated operating cost reductions achieved by consolidation. A conservative savings of 1.7 million annually is anticipated by consolidation.

(2) Assumes a development cost of \$70,000,000.

C. Project Schedule

To implement this Project, a high degree of coordination between a number of personnel and agencies will be required. The Project Implementation Schedule presented in Exhibit 8J identifies an optimistic but realistic schedule for the completion of the Project. At best, it will take more than three years to complete all necessary actions and to occupy the facility. Each month the Project is delayed will subject the State, through the developer, to increasing total Project costs as a result of inflation. Inflation may cost the State over \$800,000 per month, or, on a daily basis, over \$26,667. Additionally, any delay in the schedule may require the State to renew leases that are scheduled to expire in mid and late 1985 at significantly increased rates.

One of the key elements of the schedule is to identify, acquire, and prepare the site so construction can commence by late spring or early summer of 1982. Initiation of construction during this timeframe will significantly increase the probability that excavation, foundation, and structural work can be completed before inclement weather in the winter of 1982 which might significantly delay the Project.

Other critical dates surround the selection of the final site from the list of candidates identified in Chapter VII. The most critical item, in this regard, is the identification of the exact site to be procured by September of 1981. Achieving this schedule will then allow actual procurement activities to progress through the end of the year concurrent with the development of building performance specifications and completing the developer pre-qualification procedure.

The second significant phase of the Project will be initiated with a Bidder's Conference scheduled for January, 1982. The schedule indicates that proposals will be received from developers in February, 1982, and a final selection and award made prior to the end of March, 1982.

Interior planning and furniture procurement is deferred to 1982 to more closely coincide with the identification of personnel who will occupy the facility and to avoid the necessity of revising space plans as occupancy profiles evolve throughout the construction process. Occupancy is scheduled for October through December of 1984.

It is emphasized that critical schedule dates during 1981 must be maintained, a site must be selected by September, 1981, the site must be cleared and available for construction no later than June, 1982, and the pre-design performance specification study must be initiated immediately so it can be made available to the developers before the 1981 Christmas holiday season.

Exhibit 8J

Project Implementation Schedule

#	PROJECT SCHEDULE	1981				1982				1983				1984			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
1.	Site Acquisition Study		■	■													
2.	Procure Site (by Sept. 1981)			■	■												
3.	Prepare Site					■	■										
4.	Performance Specification		■	■	■												
5.	Prequalify Developer			■	■												
6.	Bidders Conference					■											
7.	Final Developer Proposals					■	■										
8.	Review and Select					■											
9.	Design Documents						■	■	■	■							
10.	Construction							■	■	■	■	■	■	■	■	■	■
11.	Interior Planning									■	■	■					
12.	Furniture Procurement										■	■	■	■	■		
13.	Occupancy																■

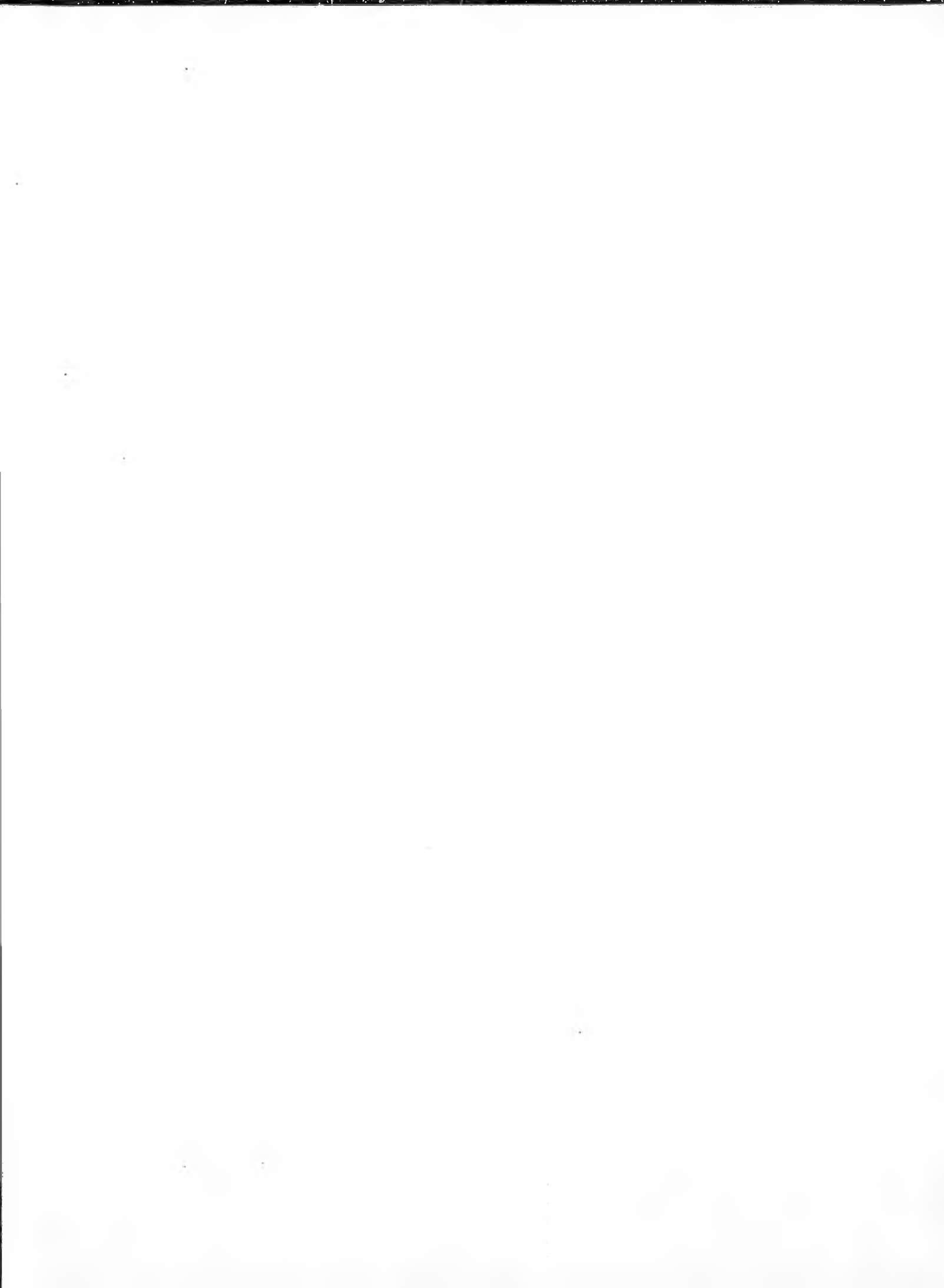
D. Summary and Conclusion

The Consultant recommends the State immediately initiate appropriate action that will lead to securing one of the sites identified in Chapter VII for the Project. The Consultant believes the three final sites provide very comparable benefits to the State with respect to achieving long term Project goals and objectives. Although there are certain differences from one site to another, taken collectively, there appears to be very few quantitative differences.

Recommended Actions

The following actions should be taken by the State of Alaska to further this Project towards implementation.

1. The State should engage a qualified Anchorage-based real estate consultant to work in conjunction with DOT/PF to conduct additional investigations relative to site acquisition costs and procedures.
2. The State should charge the real estate consultant and DOT/PF with responsibility to identify actual site acquisition costs, including all related costs and contingencies, and to act as necessary to acquire the property. It is recommended that site acquisition be completed at the earliest opportunity and no later than September of 1981.
3. It is recommended that negotiations continue towards the procurement of additional land that is contiguous with the selected site or a purchase option should be secured to protect long term expansion capabilities.
4. The State of Alaska should initiate a project to prepare a comprehensive space requirements data base and a building performance and design specification. This study would detail the building configuration and massing concept and should also detail estimated initial construction costs. The performance specification would itemize the State's specific building requirements and would become the basis for soliciting competitive proposals from qualified developers. This study should be initiated in June of 1981 and completed prior to December of 1981.
5. The State should work closely with the building design and performance specification consultant and appropriate others to evaluate alternative financing and development methods, to explore financing opportunities that may be provided by the Alaska Industrial Development Authority, and to explore all legal issues surrounding the acquisition and lease/purchase recommendations.
6. The State should develop documents that will solicit competitive proposals from qualified developers. These





STATE OF ALASKA
DEPARTMENT OF ADMINISTRATION

Financial Updates
Proposed Anchorage
State Office Building

JANUARY 7, 1985

 ARTHUR YOUNG



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

ARTHUR YOUNG

2200 One Union Square
Seattle, Washington 98101
Telephone: (206) 623-9000
Telex: 152556

January 7, 1984

Mr. Anselm Staack
State of Alaska
Department of Administration
Pouch C (MS 0200)
Juneau, Alaska 99811

Dear Mr. Staack:

We are pleased to provide you with an update of our December 1984 report analyzing the effects of changes in assumptions regarding the financing and ownership of the proposed new State Office Building in Anchorage. We have based this update on the information you and your staff provided Todd Curry during his recent visit to your office.

The purpose of this analysis is to incorporate the most recent information concerning the building project. Since nearly every assumption has changed since our February 1983 report, we urge you to examine this report carefully. Some of the changes have a major impact on the analysis. For example, the operating expense assumptions reflect a shift from a gross rental rate approach (used in both of our earlier reports) to a net rental rate approach (used in this report).

We would welcome the opportunity to provide further analysis of the projected impacts of new changes that may be made in the future. We would also be pleased to assist you in the upcoming phases of this project, such as in evaluating proposals and in the management of the design and construction activities.



Mr. Anselm Staack
January 7, 1984
Page 2

As in our previous reports, much of the information in this report represents the results of forecasts based upon information provided and developed by others as well as upon future results which may or may not occur as anticipated. For these reasons, no guarantees can be made or implied as to the likelihood of these results occurring as projected.

We would be pleased to respond to any questions you may have. We look forward to being of further service in this important project.

Yours very truly,

Arthur Young & Company

TABLE OF CONTENTS

FINANCIAL UPDATES PROPOSED ANCHORAGE STATE OFFICE BUILDING

<u>SECTION</u>		<u>PAGE</u>
A.	PURPOSE	1
B.	ASSUMPTIONS	2
	1. Square Footages	2
	2. Construction Costs	4
	3. Rental Rates	4
	4. Operating Expenses	5
	5. Occupancy Rate	6
	6. Annual Escalation Rates	6
	7. Depreciation and Amortization	6
	8. Debt Expense	7
	9. Tax Provision	7
	10. Ground Lease	8
	11. The State's Discount Rate	8
C.	NET PRESENT VALUE AND SENSITIVITY ANALYSIS	8
	1. The State's Cost	9
	2. Net Present Value to the Private Owner/ Financer	16
<u>EXHIBIT</u>		
I	Summary Table of Changed Assumptions	3
II	Anchorage State Office Building - Breakeven Curve, Public v. Private	10
III	Present Value of Cost to State (in 000's) Public Versus Private Financing	11
IV	Net Present Value to Private Owner/Financer	17
<u>APPENDIX</u>		
A	Worksheets for Net Present Values of Cost to the State under Public Versus Private Financing	A1
B	Cash Flow Statements and Worksheets for Net Present Values to the Private Owner/Financer	B1

FINANCIAL UPDATES
PROPOSED ANCHORAGE STATE OFFICE BUILDING

A. PURPOSE

The purpose of this report is to revise the previous financial analyses provided in reports dated February 1983 and December 1984. The February 1983 analyses were revised in December 1984 to reflect a few changes in financial assumptions. The December 1984 analyses were revised in this report to reflect further, more substantial changes in assumptions.

The sources of information concerning all assumptions were:

1. Mr. Anselm Staack, Deputy Commissioner, Department of Administration.
2. Mr. Bob Link, Director of the General Services and Supply Division, Department of Administration.
3. Bidding documents for the proposed building prepared by the Department of Administration.
4. Anchorage State Office Building Feasibility Study, CCC Architects and Planners, Jim Steinman & Associates, June 1981 (February 1983 report).
5. Financial Analysis: Anchorage State Office Complex, Julien J. Studley, Inc., December 1981 (February 1983 report).
6. Financial sections of the draft Ground lease and Commercial Lease documents (February 1983 report).

The remainder of this report consists of two sections. The first section contains a discussion of changes in the Assumptions that have been made. The second section contains the Net Present Values and Sensitivity Analysis generated from the new assumptions.

B. ASSUMPTIONS

Since February 1983, nearly all of the assumptions on which the original financial analysis was based have changed. This section of the report defines each assumption of the financial analysis and how it has changed from earlier reports. Exhibit I is a table that summarizes the changed assumptions.

1. Square Footages

In the February 1983 report, there were three alternatives for the phasing and size of the building. The December 1984 report studied two of the three alternatives, both of which involved two-phase construction. Now, the building is planned to be built in one phase and its size has been set by the Department of Administration for purposes of this evaluation as follows:

•	Gross SF	
	State	392,000
	Commercial	<u>34,000</u>
	Total	<u>426,000</u>
•	Net SF	
	State	350,000
	Commercial/Retail	<u>30,000</u>
	Total	<u>380,000</u>

**PROPOSED ANCHORAGE STATE OFFICE BUILDING
SUMMARY TABLE OF CHANGED ASSUMPTIONS**

<u>ASSUMPTION</u>	<u>February 1983 Report</u>	<u>December 1984 Report</u>	<u>January 1985 Report</u>
1. Number of Alternatives for the Phasing and Size of Building	3	2	1
2. Construction/Occupancy Phases	1 or 2	2	1
3. Gross Square Feet			
State	426M - 639M	426M - 639M	392M
Commercial/Retail	0 - 277M	0 - 277M	34M
Total	<u>426M - 703M</u>	<u>426M - 703M</u>	<u>426M</u>
4. Net Square Feet			
State	363M - 543M	363M - 543M	350M
Commercial/Retail	0 - 239M	0 - 0	30M
Total	<u>363M - 597M</u>	<u>363M - 543M</u>	<u>380M</u>
5. Construction Costs			
Building	\$152.58/GSF	\$152.58/GSF	\$94MM
Parking	\$16,000/Stall	\$16,000/Stall	(Included In Building Costs)
6. Furniture and Equipment Cost	\$25/NSF	\$25/NSF	\$16MM
7. Rental Rate (Per NSF Per Month)	\$3.59 (Gross)	\$3.51 - \$4.39 (Gross)	\$3.00 - \$4.50 (Net)
8. Operating Expenses (Per GSF Per Year)	\$5.00*	\$5.00*	\$8.50
9. Occupancy Rate	95%	95%	100%
10. Annual Escalation Rates			
CPI	8%	8%	5%
Rental Rate	50% of CPI	50% of CPI	25% of CPI
Operating Expenses	100% of CPI	100% of CPI	100% of CPI
11. Application of Escalation Rates			
Rental Rate	Every 5 Yrs. Only Before Occupancy	Every 5 Yrs. Only Before Occupancy	Annually
Operating Expenses	4	4	Annually
Years Until Occupancy			2.5
12. Depreciation Schedules	15 Year SL	40 Year SL 18 Year ACRS 15 Year SL	40 Year SL 18 Year ACRS
13. Private Owner/Financer's Discount Rate	12%	12%	12%, 14%
14. Additional Cost for Construction Financing, Debt Placement, Etc.	0	0	\$39MM - \$47MM (Pub.) (Priv.)
15. Ground Lease	Function of NOI	Function of NOI	\$53M/Year
16. State's Borrowing/Discount Rate	8%	8%, 10%	8%-11.5%

*Paid by State only under public ownership.

2. Construction Costs

In both of the previous reports, the projected cost of office space was based on estimated cost per gross square foot, the projected cost of parking was based on estimated cost per stall, and the projected cost of furniture and equipment was based on estimated cost per net square foot. These assumptions were based on the CCC report (source #4). Under those cost assumptions, the cost of the currently proposed building would have been projected to be:

$$\begin{aligned} &(\$152.58) * (426,000 \text{ GSF}) \\ &+ (\$16,000)(1,000 \text{ parking stalls}) \\ &+ (\$25) * (380,000 \text{ NSF}) \\ &= \underline{\underline{\$90,499,080}} \end{aligned}$$

The cost of office space and parking is now assumed by the Department of Administration to be \$94,000,000 and the cost of furniture and equipment to be \$16,000,000. Thus, the total cost of the building is now projected at:

$$\begin{aligned} &\$ 94,000,000 \\ &+ \underline{16,000,000} \\ &= \underline{\underline{\$110,000,000}} \end{aligned}$$

Since the entire cost of the project is assumed by the Department of Administration to be incurred in the near future, there is no discounting of the building cost in calculating present value impacts.

3. Rental Rates

In the February 1983 report, the rental rate was assumed to be \$3.59 per net square foot per month, based on the Studley report (source #5). In the December 1984 report,

the rental rate was assumed to be either \$3.59 or whatever rate necessary to yield a given rate of return to the private owner/financer. At the request of the Department of Administration, we examine in this report the effects of 16 different rental rates on the State's cost and the private owner/financer's cash flow. The rental rates range from \$3.00 to \$4.50, in increments of \$.10.

Under public ownership, it is assumed by the Department of Administration that the rental rate is charged to commercial/retail tenants. Under private ownership, the same rental rate is assumed to be charged to both the commercial/retail tenants and the State.

4. Operating Expenses

In both of the previous reports, operating expenses were assumed to be \$5.00 per gross square foot per year, based on the Studley report. Now the Department of Administration assumes that these expenses will total \$8.50 per gross square foot per year.

In both of the previous reports, it was assumed that, if the building were privately owned, the state would pay a gross rent with the owner paying operating expenses. Under the current proposal by the Department of Administration, however, the State would pay a net rent to the owner and thus be responsible for paying operating expenses.

Therefore, operating expenses no longer have any effect on the comparison of the State's cost under public versus private ownership, as they would be paid by the State in either case.

5. Occupancy Rate

In both of the previous reports, it was assumed that the building effective occupancy rate would be 95%, based on the Studley report. Now, the Department of Administration assumes a rate of 100% will apply.

6. Annual Escalation Rates

In both of the previous reports, the rental rate was assumed to increase at 50% of the Consumer Price Index (CPI), compounded and applied every five years based on the then-proposed Ground Lease (source #6).

Now, the rental rate is assumed by the Department of Administration to increase at 25% of the CPI each year. Operating expenses are assumed to increase at 100% of the CPI both before and after occupancy. It is assumed that it will be 2.5 years between now and occupancy. The CPI is assumed by the State to be 5%.

Since the building is intended to be completed in one phase, there is no longer any escalation applied to construction costs.

7. Depreciation and Amortization

In the February 1983 report, it was assumed that the private owner/financer would use a fifteen year, straight line schedule for depreciating the building on his tax return. In the December 1984 report, we made separate calculations using the following three different depreciation schedules.

- Forty year, straight line.

- Eighteen year, Accelerated Cost Recovery System (ACRS).
- Fifteen year, straight line.

In this report, the schedules used are forty year and eighteen year. As before, furniture and equipment (less a 10% Investment Tax Credit) is depreciated over five years.

8. Debt Expense

As before, debt expense is based on 12% interest plus the "upside" charge of 25% of rental increases. The debt is amortized over 30 years. In this report, we also examined the effect of assuming a 14% interest rate.

The debt principal consists of the \$110,000,000 construction costs described in #2 above plus the additional cost of construction financing, debt placement, and related expenses. Under public financing, it is assumed by the Department of Administration that the additional cost would be \$35,000,000.

Under private financing, where it is assumed by the Department of Administration that construction financing rates would be four percentage points higher and that other expenses would be 10% higher than under public financing, the additional cost is projected to be \$47,250,000.

9. Tax Provision

As before, it is assumed that the private owner/financer is a corporation with income taxable at 46%.

10. Ground Lease

In both of the previous reports, the ground lease revenues were calculated as a function of the Net Operating Income generated by the building for the private owner/financer, per the then-proposed Ground Lease. However, it is proposed by the State to be determined as follows:

- $\$4.316/\text{SF}/\text{Year} * 124,500 \text{ SF} = \$537,342 \text{ Per Year}$

The 124,500 square feet represent the projected "footprint" of the building. The \$4.316 per square foot per year was derived by the State and its real estate consultants by taking 10% of the fair market value of the land. Like the rental rate, the Ground lease charge is projected to escalate at 25% of the CPI.

11. The State's Discount Rate

In the February 1983 report, the State's discount rate (the rate at which future cash flows are discounted in order to determine present values) was assumed to be 8%. In the December 1984 report, the discount rate was set at both 8% and 10%. In this report, the rate is set at 8%, 10%, 10.5%, 11%, and 11.5%, as requested.

C. NET PRESENT VALUE AND SENSITIVITY ANALYSIS

Using the assumptions discussed above, we constructed two sets of financial models. The first set compares the State's cost under public versus private ownership. The second set calculates the net cash flow and the net present value of the project to the private owner/financer.

In order to test the sensitivity of the analysis to changes in particular assumptions, the models were run using the ranges of assumptions discussed above.

1. The State's Cost

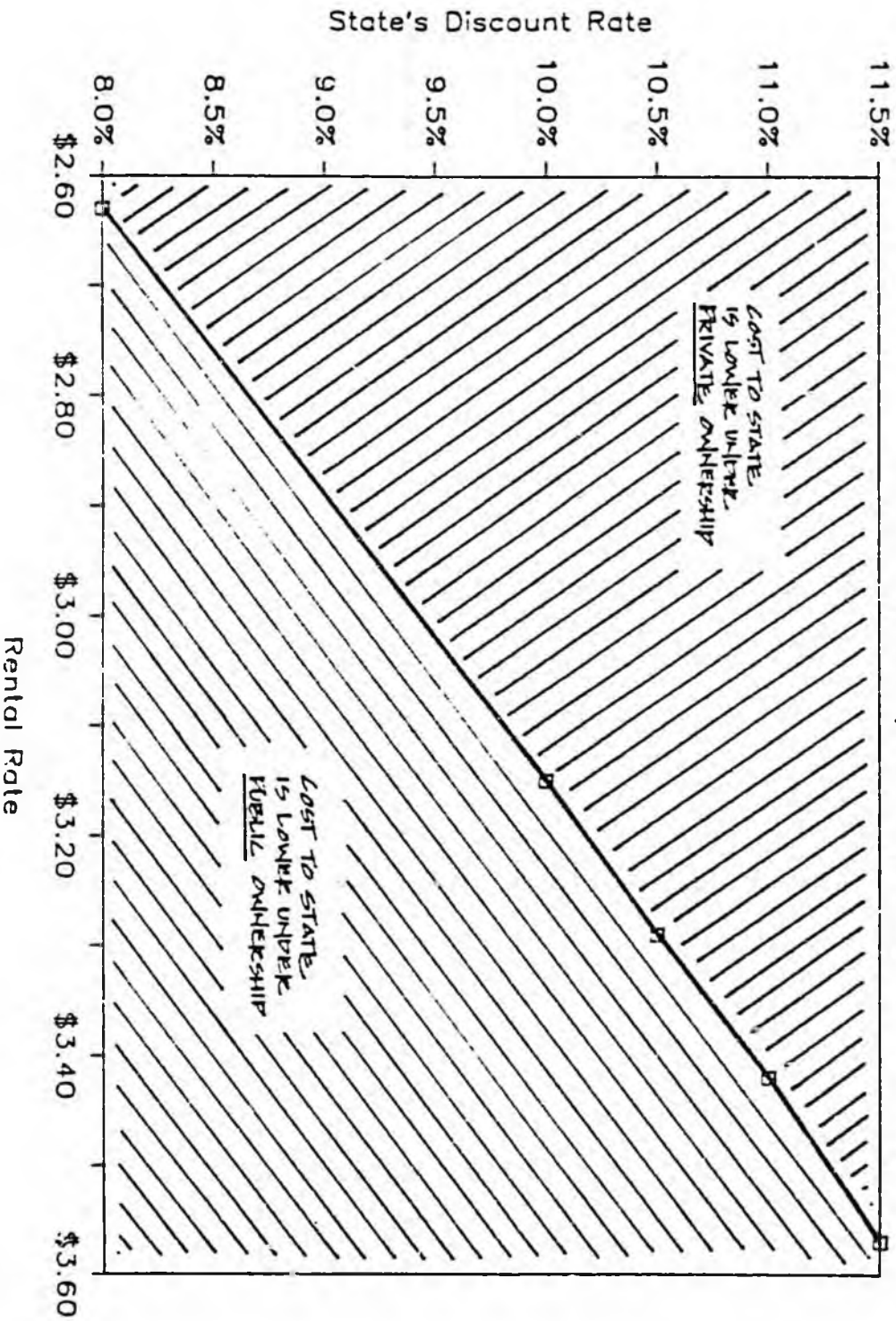
Exhibit II shows the breakeven curve of the cost to the State under public versus private financing. In the region above and to the left of the breakeven curve, the cost to the State is lower under private ownership/financing. In the region below and to the right of the breakeven curve, the cost to the State is lower under public ownership/financing. Thus, for any given rental rate, private ownership becomes less costly as the State's discount rate increases. Similarly, for any given discount rate, public ownership becomes less costly as the rental rate increases.

In order to make these comparisons, the incremental costs and revenues to the State were isolated under both arrangements. Under public financing, the incremental cost to the State is the debt service and the incremental revenue is the rent paid by commercial/retail tenants. Under private financing, the incremental cost is rent paid by the State and the incremental revenue is the Ground Lease rent.

Exhibit III shows the net present value of the State's cost under private versus public financing under the five discount rates and 16 rental rates utilized. Appendix A contains the worksheets that support the values shown in Exhibit III.

ANCHORAGE STATE OFFICE BUILDING

Breakeven Curve, Public v. Private



ANCHORAGE STATE OFFICE BUILDING
 Present Value of Cost to State (in 000's)
 Public Versus Private Financing

Discount Rate = 8%

<u>Rental Rate</u>	<u>Public Ownership/Financing</u>	<u>Private Ownership/Financing</u>
\$3.00	\$194,082	\$215,700
3.10	193,626	221,025
3.20	193,169	226,349
3.30	192,713	231,674
3.40	192,256	236,999
3.50	191,800	242,323
3.60	191,344	247,648
3.70	190,887	252,973
3.80	190,431	258,297
3.90	189,974	263,622
4.00	189,518	268,946
4.10	189,062	274,271
4.20	188,605	279,596
4.30	188,149	284,920
4.40	187,692	290,245
4.50	187,236	295,570

ANCHORAGE STATE OFFICE BUILDING
Present Value of Cost to State (in 000's)
Public Versus Private Financing

Discount Rate = 10%

<u>Rental Rate</u>	<u>Public Ownership/Financing</u>	<u>Private Ownership/Financing</u>
\$3.00	\$183,352	\$176,059
3.10	182,975	180,459
3.20	182,598	184,860
3.30	182,220	189,261
3.40	181,843	193,661
3.50	181,466	198,062
3.60	181,089	202,463
3.70	180,712	206,863
3.80	180,334	211,264
3.90	179,957	215,665
4.00	179,580	220,065
4.10	179,203	224,466
4.20	178,826	228,867
4.30	178,448	233,267
4.40	178,071	237,668
4.50	177,694	242,069

ANCHORAGE STATE OFFICE BUILDING
Present Value of Cost to State (in 000's)
Public Versus Private Financing

Discount Rate = 10.5%

<u>Rental Rate</u>	<u>Public Ownership/Financing</u>	<u>Private Ownership/Financing</u>
\$3.00	\$181,216	\$167,982
3.10	180,855	172,193
3.20	180,494	176,404
3.30	180,133	180,615
3.40	179,772	184,826
3.50	179,411	189,037
3.60	179,050	193,247
3.70	178,689	197,458
3.80	178,328	201,669
3.90	177,967	205,880
4.00	177,607	210,091
4.10	177,246	214,302
4.20	176,885	218,513
4.30	176,524	222,724
4.40	176,163	226,934
4.50	175,802	231,145

ANCHORAGE STATE OFFICE BUILDING
Present Value of Cost to State (in 000's)
Public Versus Private Financing

Discount Rate = 11.0%

<u>Rental Rate</u>	<u>Public Ownership/Financing</u>	<u>Private Ownership/Financing</u>
\$3.00	\$179,255	\$160,504
3.10	178,910	164,539
3.20	178,564	168,573
3.30	178,218	172,608
3.40	177,872	176,643
3.50	177,526	180,677
3.60	177,181	184,712
3.70	176,835	188,746
3.80	176,489	192,781
3.90	176,143	196,815
4.00	175,797	200,850
4.10	175,451	204,884
4.20	175,106	208,919
4.30	174,760	212,953
4.40	174,414	216,988
4.50	174,068	221,022

ANCHORAGE STATE OFFICE BUILDING
Present Value of Cost to State (in 000's)
Public Versus Private Financing

Discount Rate = 11.5%

<u>Rental Rate</u>	<u>Public Ownership/Financing</u>	<u>Private Ownership/Financing</u>
\$3.00	\$177,454	\$153,570
3.10	177,122	157,440
3.20	176,790	161,311
3.30	176,458	165,181
3.40	176,127	169,052
3.50	175,795	172,922
3.60	175,463	176,793
3.70	175,131	180,663
3.80	174,799	184,534
3.90	174,468	188,404
4.00	174,136	192,275
4.10	173,804	196,145
4.20	173,472	200,016
4.30	173,141	203,886
4.40	172,809	207,757
4.50	172,477	211,627

Under both arrangements, the State pays the operating expenses. Thus, as noted earlier, operating expenses do not affect the comparison. However, the net present value of operating expenses was calculated and shown in Appendix A in order to be consistent with the analysis in our previous reports.

2. Net Present Value to the Private Owner/Financer

In order to estimate the value of the project to the private owner/financer, net cash flow statements were generated using both the 18 year and the 40 year depreciation schedules under the 16 rental rates. The corresponding net present values were calculated using discount rates of 12% and 14% (which are the two interest rates assumed for the private owner/financer).

Exhibit IV shows the net present value to the private owner/financer under the two depreciation schedules, 16 rental rates, and two discount rates. Appendix B contains the worksheets that support the values shown in Exhibit IV.

NET PRESENT VALUE TO PRIVATE OWNER/FINANCER
18 Year Depreciation Schedule

<u>Rental Rate</u>	<u>Private Owner/Financer's Discount Rate</u>	
	<u>12%</u>	<u>14%</u>
\$3.00	\$3,106	\$4,549
3.10	5,276	6,413
3.20	7,446	8,277
3.30	9,616	10,141
3.40	11,786	12,006
3.50	13,957	13,870
3.60	16,127	15,734
3.70	18,297	17,598
3.80	20,467	19,462
3.90	22,637	21,326
4.00	24,807	23,190
4.10	26,977	25,054
4.20	29,148	26,918
4.30	31,318	28,782
4.40	33,488	30,646
4.50	35,658	32,510

NET PRESENT VALUE TO PRIVATE OWNER/FINANCER
40 Year Depreciation Schedule

<u>Rental Rate</u>	<u>Private Owner/Financer's Discount Rate</u>	
	<u>12%</u>	<u>14%</u>
\$3.00	\$(12,625)	\$(10,650)
3.10	(10,454)	(8,786)
3.20	(8,284)	(6,922)
3.30	(6,114)	(5,058)
3.40	(3,944)	(3,193)
3.50	(1,774)	(1,329)
3.60	396	535
3.70	2,566	2,399
3.80	4,737	4,263
3.90	6,907	6,127
4.00	9,077	7,991
4.10	11,247	9,855
4.20	13,417	11,719
4.30	15,587	13,583
4.40	17,757	15,447
4.50	19,928	17,311

APPENDIX A

**Worksheets For Net Present Values of Cost to the State
Under Public Versus Private Financing**

ANCHORAGE STATE OFFICE BUILDING
 Present Value of Cost to State
 Public versus Private Financing/Ownership
 Alternative III - Time Phased, Lease/Purchase
 Supporting Schedule
 (In \$000s)

Discount Rate = 8%

Rental Rates:	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
Net Cost under Public Ownership																
PV of Operating Expense	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774
PV of Debt Service	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Less PV of Rental Revenue	13,692	14,148	14,605	15,061	15,517	15,974	16,430	16,887	17,343	17,799	18,256	18,712	19,169	19,625	20,081	20,538
Total	194,082	193,626	193,169	192,713	192,256	191,800	191,344	190,887	190,431	189,974	189,518	189,062	188,605	188,149	187,692	187,236
Net Cost under Private Ownership																
PV of Rental Expense	159,739	145,047	170,388	175,712	181,037	186,362	191,686	197,011	202,336	207,660	212,985	218,309	223,634	228,959	234,283	239,608
PV of Operating Expense	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774	62,774
Less PV of Ground Lease	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812	6,812
Total	215,700	221,025	226,349	231,674	236,999	242,323	247,648	252,973	258,297	263,622	268,946	274,271	279,596	284,920	290,245	295,570
PUBLIC - PRIVATE	(21,618)	(27,399)	(33,180)	(38,961)	(44,742)	(50,523)	(56,304)	(62,085)	(67,866)	(73,647)	(79,428)	(85,209)	(90,990)	(96,771)	(102,552)	(108,333)

Discount Rate = 10%

Rental Rates:	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
Net Cost under Public Ownership																
PV of Operating Cost	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668
PV of Debt Service	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Less PV of Rental Revenue	11,316	11,693	12,070	12,448	12,825	13,202	13,579	13,956	14,334	14,711	15,088	15,465	15,842	16,220	16,597	16,974
Total	183,352	182,975	182,598	182,220	181,843	181,466	181,089	180,712	180,334	179,957	179,580	179,203	178,826	178,448	178,071	177,694
Net Cost under Private Ownership																
PV of Rental Cost	132,021	136,421	140,822	145,223	149,623	154,024	158,425	162,825	167,226	171,627	176,028	180,428	184,829	189,230	193,630	198,031
PV of Operating Cost	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668	49,668
Less PV of Ground Lease	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630	5,630
Total	176,059	180,459	184,860	189,261	193,661	198,062	202,463	206,863	211,264	215,665	220,065	224,466	228,867	233,267	237,668	242,069
PUBLIC - PRIVATE	7,293	2,516	(2,262)	(7,040)	(11,818)	(16,596)	(21,374)	(26,152)	(30,930)	(35,708)	(40,485)	(45,263)	(50,041)	(54,819)	(59,597)	(64,375)

Discount Rate = 10.5%

Rental Rates:	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
Net Cost under Public Ownership																
PV of Operating Cost	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044
PV of Debt Service	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Less PV of Rental Revenue	10,828	11,189	11,550	11,911	12,272	12,633	12,994	13,354	13,715	14,076	14,437	14,798	15,159	15,520	15,881	16,242
Total	181,216	180,855	180,494	180,133	179,772	179,411	179,050	178,689	178,328	177,967	177,607	177,246	176,885	176,524	176,163	175,802
Net Cost under Private Ownership																
PV of Rental Cost	126,324	130,537	134,748	138,958	143,169	147,380	151,591	155,802	160,013	164,224	168,434	172,645	176,856	181,067	185,278	189,489
PV of Operating Cost	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044	47,044
Less PV of Ground Lease	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387	5,387
Total	167,982	172,193	176,404	180,615	184,826	189,037	193,247	197,458	201,669	205,880	210,091	214,302	218,513	222,724	226,934	231,145
PUBLIC - PRIVATE	13,234	8,662	4,090	(482)	(5,054)	(9,625)	(14,197)	(18,769)	(23,341)	(27,912)	(32,484)	(37,056)	(41,628)	(46,200)	(50,772)	(55,343)

Discount Rate - 11.0%

Rental Rates:	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
Net Cost under Public Ownership																
PV of Operating Cost	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630
PV of Debt Service	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Less PV of Rental Revenue	10,775	10,720	11,066	11,412	11,758	12,104	12,449	12,795	13,141	13,487	13,833	14,179	14,524	14,870	15,216	15,562
Total	178,855	178,910	178,564	178,218	177,872	177,525	177,181	176,835	176,489	176,143	175,797	175,451	175,104	174,758	174,414	174,068
Net Cost under Private Ownership																
PV of Rental Cost	121,036	125,071	129,105	133,140	137,174	141,209	145,243	149,278	153,312	157,347	161,382	165,415	169,451	173,485	177,520	181,554
PV of Operating Cost	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630	44,630
Less PV of Ground Lease	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162	5,162
Total	160,504	164,539	168,573	172,608	176,643	180,677	184,712	188,746	192,781	196,815	200,850	204,884	208,919	212,953	216,988	221,022
PUBLIC - PRIVATE	18,751	14,371	9,990	5,610	1,230	(3,151)	(7,531)	(11,911)	(16,292)	(20,672)	(25,052)	(29,433)	(33,813)	(38,194)	(42,574)	(46,954)

Discount Rate = 11.5%

Rental Rates:	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
Net Cost under Public Ownership																
PV of Operating Cost	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404
PV of Debt Service	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000	145,000
Less PV of Rental Revenue	9,953	10,284	10,614	10,944	11,274	11,604	11,934	12,264	12,594	12,924	13,254	13,584	13,914	14,244	14,574	14,904
Total	177,454	177,122	176,790	176,458	176,127	175,795	175,463	175,131	174,799	174,468	174,136	173,804	173,472	173,141	172,809	172,477
Net Cost under Private Ownership																
PV of Rental Cost	118,115	119,986	123,856	127,727	131,597	135,468	139,338	143,209	147,079	150,950	154,820	158,691	162,561	166,432	170,302	174,173
PV of Operating Cost	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404	42,404
Less PV of Ground Lease	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952	4,952
Total	155,567	157,440	161,311	165,181	169,052	172,922	176,793	180,663	184,534	188,404	192,275	196,145	200,016	203,886	207,757	211,627
PUBLIC - PRIVATE	23,884	19,682	15,479	11,277	7,075	2,873	(1,730)	(5,532)	(9,734)	(13,936)	(18,138)	(22,341)	(26,543)	(30,745)	(34,948)	(39,150)

Operating Expenses: 88.50 (escalates)
 Escalation Rate: 5.00%
 Discount Rate: 10% (varies)
 Years until Occupancy: 2.5
 Square Feet, 1 - 10: 426,000
 Square Feet, 11 - 30: 424,000
 NPV of Operating Costs: \$61,550,547
 NPV, net of RE Taxes: \$45,162,910

Data Table (NPV of Operating Costs; varying the Discount Rate)

Discount Rate	NPV
8.50	\$45,162,910
9.00	\$42,773,884
9.50	\$40,668,052
10.00	\$38,704,755
10.50	\$36,829,968
11.00	\$35,006,280

Ground Lease: 4.31% (escalates)
 Escalation Rate: 1.25%
 Discount Rate: 10% (varies)
 Square Feet, 1 - 10: 124,500
 Square Feet, 11 - 30: 174,500
 NPV of Ground Lease: \$5,630,178

Data Table (NPV of Ground Lease; varying the Discount Rate)

Discount Rate	NPV
8.50	\$5,630,178
9.00	\$4,812,247
9.50	\$4,030,178
10.00	\$3,387,317
10.50	\$2,811,772
11.00	\$2,351,871

Rental Rate: \$3.59 (varies, escalates)
 Escalation Rate: 1.25%
 Discount Rate: 10% (varies)
 Square Feet, State: 350,000
 Square Feet, Commercial: 30,000
 NPV of Rental: \$157,984,723

Data Table (NPV of Rental; varying Rental and Discount Rates)

Discount Rate	NPV	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
8.50	\$157,984,723																
9.00	\$159,738,607	\$165,063,227	\$170,387,847	\$175,712,467	\$181,037,088	\$186,361,708	\$191,686,328	\$197,010,948	\$202,335,569	\$207,660,189	\$212,984,809	\$218,309,429	\$223,634,050	\$228,958,670	\$234,283,290	\$239,607,911	\$244,932,531
9.50	\$132,020,660	\$134,421,349	\$140,822,037	\$145,222,726	\$149,623,415	\$154,024,103	\$158,424,792	\$162,825,481	\$167,226,170	\$171,626,859	\$176,027,547	\$180,428,235	\$184,828,924	\$189,229,613	\$193,630,301	\$198,031,000	\$202,431,700
10.00	\$126,325,872	\$130,536,734	\$134,747,596	\$138,958,459	\$143,169,321	\$147,380,183	\$151,591,046	\$155,801,908	\$160,012,771	\$164,223,633	\$168,434,495	\$172,645,358	\$176,856,220	\$181,067,082	\$185,277,945	\$189,488,808	\$193,699,670
10.50	\$121,036,174	\$125,070,713	\$129,105,252	\$133,139,791	\$137,174,330	\$141,208,869	\$145,243,408	\$149,277,948	\$153,312,487	\$157,347,026	\$161,381,565	\$165,416,104	\$169,450,643	\$173,485,182	\$177,519,721	\$181,554,260	\$185,588,800
11.00	\$116,115,190	\$119,985,697	\$123,856,203	\$127,726,709	\$131,597,216	\$135,467,722	\$139,338,228	\$143,208,735	\$147,079,241	\$150,949,748	\$154,820,254	\$158,690,760	\$162,561,267	\$166,431,773	\$170,302,279	\$174,172,786	\$178,043,292

APPENDIX B

**Cash Flow Statements and Worksheets for Net
Present Values to the Private Owner/Financer**

ANCHORAGE STATE OFFICE BUILD.
 Net Cash Flow to the Private Owner-Financier
 Depreciation Assumption: 18-year life

(in 000's)

	Year 0	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Year 31	Totals
REVENUE									
Crane		15,440	14,450	17,505	18,626	19,820	21,090		94,754
Commercial/Retail		1,325	1,410	1,500	1,597	1,699	1,800		46,692
Operating Expense Passthrough		4,521	5,770	7,364	9,398	11,699	15,309		271,784
Total Revenue		21,306	21,630	26,369	29,621	33,514	38,207		943,231
OPERATING EXPENSES, Net		4,521	5,770	7,364	9,398	11,699	15,309		271,784
NET OPERATING INCOME		16,785	17,860	19,005	20,223	21,815	22,898		591,447
DEPRECIATION AND AMORT'N									
Building		11,300	7,345	4,215	3,390	0	0		141,250
Furniture & Equipment		2,880	0	0	0	0	0		14,400
Total		14,180	7,345	4,215	3,390	0	0		155,650
DEBT EXPENSE									
Interest		18,694	18,047	14,550	14,990	11,536	5,447		428,398
Unpaid		269	284	304	324	345	(5,724)		(20,981)
Total		18,963	18,349	17,255	15,314	11,880	(277)		407,417
PRE-TAX NET INCOME		(16,354)	(7,833)	(4,465)	1,519	9,438	23,175		78,381
Less: TAX PROVISION		(7,525)	(3,603)	(2,054)	699	4,434	10,660		13,055
Add: ITC		320	0	0	0	0	0		1,400
POST-TAX NET INCOME		(16,513)	(4,230)	(2,411)	820	5,205	12,514		16,926
ADD: Dep'n and Amort.		14,180	7,345	4,215	3,390	0	0	0	155,650
Remaining Net Book Value									0
LESS: Debt Principal		828	1,459	2,571	4,532	7,984	14,074		177,250
Investment									0
"Ground Lease"		551	584	674	644	774	757		19,414
NET CASH FLOW	0	4,288	1,070	609	(985)	(3,448)	(2,311)	0	(4,048)

Rental Rate per month 3.59
 Investor's Discount Rate 17%
 NPV of Cash Flow \$15,910

NPV of Project to Investor Under Alternative Rental and Discount Rates

	15.910	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
12%	3,104	5,274	7,444	9,614	11,784	13,957	16,127	18,297	20,467	22,637	24,807	26,977	29,147	31,317	33,487	35,658	
14%	4,549	6,413	8,277	10,141	12,006	13,870	15,734	17,598	19,462	21,326	23,190	25,054	26,918	28,782	30,646	32,510	

ANCHORAGE STATE OFFICE BUILDING
 Net Cash Flow to the Private Owner/Financier
 Depreciation Assumption: 18-year life

Rental Rate: 83.59 (varies, escalates)
 Escalation Rate: 1.25%
 Discount Rate: 12% (varies)
 Square Feet, 1 - 10: 350,000
 Square Feet, 11 - 30: 750,000
 NPV of Rental: 69,161,384
 Square Feet, Commercial/Retail: 30,000

Operating Expense: 86.50 (escalates)
 Escalation Rate: 4.00%
 Discount Rate: 12% (varies)
 Years until occupancy: 2.5
 Square Feet, 1 - 10: 426,000
 Square Feet, 11 - 30: 426,000
 NPV of Operating Cost: 44,661,058
 NPV, net of RE Taxes: 634,995,794

Ground Lease: 4.316 (escalates)
 Escalation Rate: 1.25%
 Discount Rate: 12% (varies)
 Square Feet, 1 - 10: 124,500
 Square Feet, 11 - 30: 124,500
 NPV of Ground Lease: 84,489,965

CAPITAL COSTS AND INTEREST EXPENSE
 Amortization Table

Period	Principal	Interest	Payment	Balance
0				157,250
1	652	18,870	19,522	156,598
2	730	18,792	19,522	155,868
3	817	18,704	19,522	155,051
4	915	18,606	19,522	154,136
5	1,025	18,496	19,522	153,111
6	1,148	18,373	19,522	151,962
7	1,284	18,235	19,522	150,676
8	1,440	18,081	19,522	149,236
9	1,613	17,908	19,522	147,622
10	1,807	17,715	19,522	145,815
11	2,024	17,498	19,522	143,792
12	2,267	17,255	19,522	141,525
13	2,539	16,983	19,522	138,987
14	2,843	16,678	19,522	136,143
15	3,184	16,337	19,522	132,959
16	3,567	15,965	19,522	129,392
17	3,996	15,567	19,522	125,398
18	4,474	15,146	19,522	120,924
19	5,011	14,511	19,522	115,913
20	5,612	13,910	19,522	110,301
21	6,285	13,234	19,522	104,016
22	7,040	12,482	19,522	97,176
23	7,884	11,637	19,522	89,092
24	8,831	10,691	19,522	80,261
25	9,890	9,631	19,522	70,371
26	11,077	8,445	19,522	59,294
27	12,406	7,115	19,522	46,888
28	13,895	5,627	19,522	32,992
29	15,562	3,959	19,522	17,430
30	17,430	2,092	19,522	0
	157,250	428,398	585,648	

ANCHORAGE STATE OFFICE BUILDING
 Net Cash Flow to the Private Owner/Financer
 Depreciation Assumption: 40-year life

(in 1000's)

	Year 0	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Year 30	Total
REVENUE									
State		15,440	16,450	17,505	18,526	19,620	21,090		544,754
Commercial/Retail		1,325	1,410	1,507	1,597	1,689	1,804		46,692
Operating Expense Passthrough		4,521	5,770	7,364	9,398	11,995	15,309		271,784
Total Revenue		21,306	23,630	26,369	29,621	33,314	38,207		863,231
OPERATING EXPENSES, Net		4,521	5,770	7,364	9,398	11,995	15,309		271,784
NET OPERATING INCOME		16,785	17,860	19,005	20,223	21,319	22,898		591,447
DEPRECIATION AND AMORT'N									
Building		3,531	3,531	3,531	3,531	3,531	3,531		105,938
Furniture & Equipment		2,880	0	0	0	0	0		14,400
Total		6,411	3,531	3,531	3,531	3,531	3,531		120,338
DEBT EXPENSE									
Interest		18,694	18,063	16,950	14,990	11,536	5,447		428,398
Upside		769	284	304	324	345	(5,724)		(20,981)
Total		18,943	18,349	17,255	15,314	11,880	(277)		407,417
PRE-TAX NET INCOME		(8,589)	(4,020)	(1,781)	1,378	6,107	19,643		63,693
Less: TAX PROVISION		(3,951)	(1,849)	(819)	634	2,809	9,034		29,299
And: ITC		320	0	0	0	0	0		1,400
POST-TAX NET INCOME		(4,318)	(2,171)	(962)	744	3,298	10,607		35,994
ADD: Dep'n and Amort.,		6,411	3,531	3,531	3,531	3,531	3,531		120,338
Remaining Net Book Value								35,313	35,313
LESS: Debt Principal		878	1,459	2,571	4,537	7,904	14,074		157,250
Investment									0
"Ground Lease"		551	584	624	664	704	752		19,414
NET CASH FLOW	0	714	(685)	(626)	(920)	(1,863)	(607)	35,313	14,951

Rental Rate per month 3.59
 Investor's Discount Rate 12%
 NPV of Cash Flow 8179

NPV of Project to Investor Under Alternative Rental and Discount Rates

17%	83.00	83.10	83.20	83.30	83.40	83.50	83.60	83.70	83.80	83.90	84.00	84.10	84.20	84.30	84.40	84.50
12%	(12,625)	(10,454)	(8,284)	(6,114)	(3,944)	(1,774)	396	2,566	4,737	6,907	9,077	11,247	13,417	15,587	17,757	19,927
14%	(10,650)	(8,786)	(6,922)	(5,058)	(3,193)	(1,329)	575	2,399	4,263	6,127	7,991	9,855	11,719	13,583	15,447	17,311

ANCHORAGE STATE OFFICE BUILDING
 Net Cash Flow to the Private Owner/Financier
 Depreciation Assumption: 40-year life

Rental Rate: 83.5% (varies, escalates)
 Escalation Rate: 1.25%
 Discount Rate: 12% (varies)
 Square Feet, 1 - 10: 350,000
 Square Feet, 11 - 30: 350,000
 NPV of Rental: 69,161,364
 Square Feet, Commercial/Retail: 70,000

Operating Expense: 68.50 (escalates)
 Escalation Rate: 5.00%
 Discount Rate: 12% (varies)
 Years until occupancy: 2.5
 Square Feet, 1 - 10: 426,000
 Square Feet, 11 - 30: 426,000
 NPV of Operating Costs: 846,661,058
 NPV, net of RE Taxes: 834,995,794

Ground Lease: 4.31% (escalates)
 Escalation Rate: 1.25%
 Discount Rate: 12% (varies)
 Square Feet, 1 - 10: 124,500
 Square Feet, 11 - 30: 124,500
 NPV of Ground Lease: 44,489,965

CAPITAL COSTS AND INTEREST EXPENSE
 Amortization Table

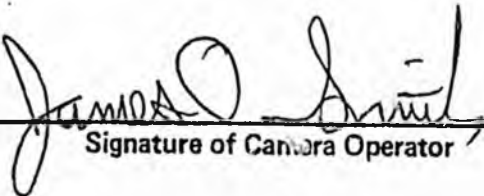
Period	Principal	Interest	Payment	Balance
0				157,250
1	652	18,870	19,522	156,598
2	730	18,792	19,522	155,869
3	817	18,704	19,522	155,051
4	915	18,606	19,522	154,136
5	1,025	18,496	19,522	153,111
6	1,148	18,377	19,522	151,962
7	1,286	18,235	19,522	150,676
8	1,440	18,081	19,522	149,236
9	1,613	17,908	19,522	147,622
10	1,807	17,715	19,522	145,815
11	2,024	17,498	19,522	143,792
12	2,267	17,255	19,522	141,525
13	2,539	16,983	19,522	138,987
14	2,843	16,678	19,522	136,143
15	3,184	16,337	19,522	132,959
16	3,567	15,955	19,522	129,392
17	3,995	15,527	19,522	125,398
18	4,474	15,048	19,522	120,924
19	5,011	14,511	19,522	115,913
20	5,612	13,910	19,522	110,301
21	6,285	13,236	19,522	104,016
22	7,040	12,482	19,522	97,076
23	7,884	11,637	19,522	89,092
24	8,831	10,691	19,522	80,261
25	9,890	9,631	19,522	70,371
26	11,077	8,445	19,522	59,294
27	12,404	7,115	19,522	46,888
28	13,895	5,627	19,522	32,992
29	15,562	3,959	19,522	17,430
30	17,430	2,092	19,522	0
	157,250	428,398	585,648	

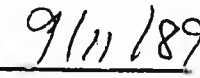


RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.


Signature of Camera Operator


Date

HUMAN

RIGHTS

COMMISSION

A PERFORMANCE REVIEW
OF THE
OFFICE OF THE GOVERNOR
ALASKA STATE COMMISSION
FOR HUMAN RIGHTS

October 15, 1979

Governor
Commission Chairperson

Jay S. Hammond
Dorothy Larson

STATE OF ALASKA

AUDIT DIVISION
POUCH W—ALASKA OFFICE BUILDING

THE LEGISLATURE

FINANCE DIVISION
POUCH WF—STATE CAPITOL

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

October 15, 1979

Members of the
Legislative Budget and Audit Committee

In accordance with Title 24 of the Alaska Statutes, the
attached report is submitted for your review.

A PERFORMANCE REVIEW
OF THE
OFFICE OF THE GOVERNOR
ALASKA STATE COMMISSION
FOR HUMAN RIGHTS

October 15, 1979



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

TABLE OF CONTENTS

	<u>Page</u>
Purpose of the Review.	4
Organization and Function.	5
Summary of Report Conclusions.	6
Findings and Recommendations	7
Appendixes:	
A. Schedule of Case Activity.	14
B. Analysis of Cases Closed By Type	15
C. Analysis of Open Cases By Type	16
D. Questionnaire to Attorneys Who Have Practiced Before The Alaska State Commission For Human Rights.	17
Response:	
Office of the Governor, Human Rights Commission.	24(a)
Legislative Audit's Additional Comments.	25(a)

PURPOSE OF THE REVIEW

In accordance with the provisions of Title 24 of the Alaska Statutes, a performance review of the Office of the Governor, Alaska State Commission for Human Rights was requested by the Legislative Budget and Audit Committee. Our review was conducted to:

1. Evaluate program objectives and performance measures set forth in the budget documents;
2. determine the extent to which program objectives are being accomplished; and
3. evaluate the Commission's operating efficiency, effectiveness and economy.

ORGANIZATION AND FUNCTION

The Alaska State Commission for Human Rights (ASCHR), was created by Legislative Authority as set out in AS 18.80.010-300 in 1963. Its purpose is to identify and eliminate discriminatory practices within Alaska and to remedy its effects on Alaskan citizens. There are seven ASCHR Commissioners appointed by the Governor and approved by the Legislature, who serve five year terms. They choose a chairperson from among themselves and also appoint an Executive Director who is subject to approval by the Governor.

Under the authority of the Executive Director are three regional Assistant Directors each of whom are in charge of their respective investigative units. In addition, the Executive Director supervises the administrative branch of ASCHR, the Systemic (class-action) Unit, and the Hearing Unit.

The Legislature intended ASCHR to be more than a "complaint-taking" agency and thus empowered it with two basic functions - that of Public Education and Enforcement of Human Rights law.

Public Education

Ignorance of the law is a major contributor to discriminatory practices. Therefore, public education is a major function of ASCHR.

Enforcement

Discrimination is alleged in the form of a complaint filed with ASCHR at any of its branch locations (Anchorage, Fairbanks, or Juneau). If after initial fact-finding a complaint appears to have potential merit, further investigation ensues. Such an investigation finds evidence of discrimination or a lack thereof, and fosters a determination by the Executive Director. The determination may be one of "no probable cause" in which the complaint is dismissed, or ASCHR may find "probable cause" after which negotiations begin to arrive at a mutually satisfactory settlement between the two parties to the complaint. Unsettled findings may go as far as a public hearing, after which the Commissioners determine the settlement. Either party may appeal the Commission's decision to the Superior Court.

AGENCY STATISTICS

	<u>FY 75</u>	<u>FY 76</u>	<u>FY 77</u>	<u>FY 78</u>	<u>FY 79</u>
General Fund Appropriations	\$198.5	\$405.3	\$626.1	\$838.2	\$883.3
Number of Employees	8	14	19	20	20
Number of Cases Closed (on calendar year basis)	411	586	637	525	Note 1

Note 1 - See Appendixes A through C for case statistics for FY 79.

SUMMARY OF REPORT CONCLUSIONS

Our review of the Alaska State Commission for Human Rights shows that certain changes and improvements are needed in order for the Commission to better accomplish its objectives.

ASCHR should allow its federal counterpart, the Equal Employment Opportunity Commission (EEOC), to process all employment discrimination complaints within its jurisdiction. The federal government is required by law to handle cases of this nature if they are not processed by the individual states (see Recommendation No. 1).

The statutes and regulations governing ASCHR should be revised since many are inadequate for carrying out the Commission's statutory purposes (see Recommendation No. 2). In addition, AS 23.10.155-185 should be repealed to eliminate duplication of statutory authority between the Department of Labor and ASCHR (see Recommendation No. 3).

The ASCHR should process complaints in a more timely manner and implement procedures to eliminate the case backlog (see Recommendation No. 4).

The Commission should submit journal vouchers, which properly allocate its Fiscal Year 1980 appropriation between authorization-expenditure accounts, to Budget and Management for approval (see Recommendation No. 5).

ASCHR's procedures for monitoring the billing and collection of federal funds should be improved to avoid any delay in receiving EEOC contract funds (see Recommendation No. 6).

FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

ASCHR should allow its federal counterpart, the Equal Employment Opportunity Commission (EEOC), to process all employment discrimination complaints within its jurisdiction.

During our review, we noted that the Alaska Human Rights Commission utilized basically the same rapid charge processing system as its federal EEOC counterpart. The main difference in the two systems is that ASCHR has an additional stage of processing, administrative hearings, prior to any cases entering the court system.

Also, the federal EEOC agency reviews closed employment discrimination cases for acceptance, according to a contract between the two agencies, in order that ASCHR may receive federal contributions to its costs of processing complaints. This contribution of federal dollars is not intended to reimburse ASCHR for costs of processing, but is just a contribution to total costs. In fact, both the EEOC and ASCHR have stated their accounting systems do not provide data to calculate costs per individual case. Thus, the federal contribution cannot be based on ASCHR's actual processing costs, but instead on an arbitrary allocation.

A complaint processed by ASCHR must meet federal standards to be accepted as a charge processed under the contract. The Director of the EEOC Seattle regional office stated that 99% of employment cases processed by ASCHR were accepted by his office.

Therefore, it is evident EEOC could become responsible for a majority of employment discrimination complaints now processed by ASCHR because:

1. Under federal law (Title VII - Equal Employment Opportunity) discrimination cases in employment must be processed.
2. The complaint processing systems of both EEOC and ASCHR are very similar; and
3. Historically, a high rate of cases processed by ASCHR have met the federal standards for processing cases of this nature.

This alternative would substantially reduce the scope of activities of ASCHR as 76% (415 cases) of the 544 open cases at June 30, 1979 were employment discrimination cases over which the EEOC has co-jurisdiction. Over the remaining 24% (87 cases) the EEOC does not have co-jurisdiction, as the Alaska state discrimination laws are broader in some areas than the federal laws, i.e. age discrimination and discrimination against pregnant women.

In Fiscal Year 1980 ASCHR was appropriated \$1,016,600, of which \$128,500 (13%) were federal funds from EEOC. This alternative would eliminate the receipt of the federal funds and should substantially reduce the \$888,100 (87%) state funded portion of ASCHR's budget.

Recommendation No. 2

The statutes and regulations governing ASCHR should be revised.

We determined through interviews and questionnaires that the statutes and regulations governing ASCHR are inadequate for carrying out its statutory purposes. Many examples were received from the staff and attorneys who practiced before the Commission or served as hearing examiners. (See Appendix D for summary of the responses to the questionnaire). The following are examples of inadequacies in the present statutes and regulations:

1. The definition of "physically handicapped" and "employer" need to be clarified.
2. The statutes should be clarified as to whether or not ASCHR has authority to award damages.
3. The definition of "unlawful discriminatory practice" includes only those unlawful discriminatory practices specified at AS 18.80.220 through AS 18.80.255. This definition should be revised to include AS 18.80.260 which deals with coercion.

In a current case a motion for dismissal has been filed because of this outdated definition, causing delay in the hearing process and the necessity of additional funds to be expended to process the complaint.

4. Presently, ASCHR has not promulgated any regulations concerning the resolution conferences which are utilized in its complaint processing system.

5. AS 18.80.120 states that ASCHR is not bound by the strict rules of evidence prevailing in courts of law or equity. In addition, the Commission is exempted from Article 8, Administrative Adjudication, under the Administrative Procedures Act, AS 44.62. Even though AS 18.80.050 states that the Commission shall adopt procedural and substantive regulations necessary to implement AS 18.80, the Commission has not promulgated sufficient regulations on hearing procedures.

The inadequacy of hearing procedures has caused delays in the hearing process. ASCHR in-house legal counsel and the respondent's attorney generally agree to the Civil Rules of Court prior to a hearing, however, in a pending case the respondent's attorney has refused to make such an agreement. Again, this has caused delay in the hearing process which causes additional funds to be expended to process the complaint.

Recommendation No. 3

AS 23.10.155-185 should be repealed to eliminate duplication of statutory authority between the Department of Labor and ASCHR.

The Department of Labor has duplicate statutory authority (AS 23.10.155-185) to investigate and hear complaints of discrimination concerning equal pay for women. Under AS 18.80.220(1) ASCHR has authority to investigate and hear complaints where a person is discriminated against in compensation on the basis of sex where reasonable demands of the position do not require age, physical handicap, or sex distinction.

Costs were incurred by the Department of Labor to process five cases under AS 23.10.155 during the past three years. Since ASCHR is funded and staffed to handle the processing of discrimination complaints the State has expended unnecessarily additional funds to have the Department of Labor, Wage and Hour/Mechanical Engineering Division process cases of a similar nature.

Recommendation No. 4

ASCHR should process complaints in a more timely manner and implement procedures to eliminate the case backlog.

This Recommendation is subordinate to Recommendation No. 1 which provides for a substantial reduction in the scope of ASCHR activities. If Recommendation No. 1 is implemented, this Recommendation should not be considered.

In a review of 144 out of 479 cases closed during Fiscal Year 1979, we determined the average processing time for the three major stages at which cases are closed. These processing times were as follows:

<u>Stages</u>	<u>Average Processing Time</u>
Cases closed after resolution conference	15.0 Months
Cases closed after conciliation conference	28.6 Months
Cases closed after public hearing	40.9 Months

We also aged the 544 cases open at June 30, 1979 and found that 44% were less than one year old; 49% were from one to three years old; and 7% were greater than three years old.

In order to reduce the processing time and the case backlog of the Commission, we recommend the following:

1. ASCHR should seek full funding of its authorized positions.

The Commission's Fiscal Year 1980 budget received a reduction of approximately 10% which required the agency to reduce expenditures in all areas of its operations. Specifically, it has been necessary to allow two field representative (investigator) positions to remain vacant after employees terminated in order to meet Fiscal Year 1980 budget. In addition, the administrative staff was forced to allow one clerical position to remain open. These reductions will add to the delay of processing complaints and case backlog.

2. The last phase of the rapid charge processing system of separating the backlog from the frontlog of cases should be implemented by ASCHR.

The most recent contract with the federal Equal Employment Opportunity Commission (EEOC) in which the State is to receive \$350 per charge processed was apportioned between the Commission's frontlog and backlog of cases.

Between November 1, 1979 and October 31, 1980 the Commission must process 100 new cases (cases filed after October 1, 1979) and 235 backlog cases.

If ASCHR is unable to meet this contractual obligation with EEOC, the subsequent year's contract will be reduced proportionately by the number of cases that ASCHR was unable to process. The Director of EEOC's Seattle regional office has expressed concern over the Commission's ability to meet its contractual obligations with its present reduction in staffing.

Thirty-four percent of the cases closed during Fiscal Year 1979 were closed due to either withdrawal of the complaint or failure of the complainant to proceed. Our interviews with staff members indicated that in the older cases it was sometimes difficult to find the complainant, witnesses, and/or the respondent. ASCHR should evaluate the effectiveness of the separation of backlog from frontlog cases within a one year period and implement additional procedures to improve processing time and to reduce backlog as necessary.

Recommendation No. 5

ASCHR should submit journal vouchers, which properly allocate its Fiscal Year 1980 appropriation between authorization - expenditure accounts, to Budget and Management for approval and further processing.

The Commission's Fiscal Year 1980 appropriation has not been properly allocated between accounts on the Current Authorization/Balances Report.

Section 6762 of the Administrative Manual states that authorizations are maintained in the same degree of detail as shown in the Budget Act. If it is necessary for the agency to exercise a greater degree of control additional authorization - expenditure accounts may be maintained. Section 6774 requires an agency to submit journal vouchers transferring an appropriation between authorization accounts to Budget and Management for approval prior to being processed by the Division of Finance.

The authorization - expenditure accounts for the Commission do not reflect the amounts of the appropriation allocated to the administration, investigations, hearings or public education functions per ASCHR's internal financial management plan, and therefore negates their efforts to maintain control over expenditures under each of its functions. Further, the portion of the appropriation funded by a contract with the federal Equal Employment Opportunity Commission should be separately accounted for to ensure that the contract is not violated by supplanting state appropriated funds with federally appropriated funds.

Recommendation No. 6

The Commission should improve its procedures for monitoring the billing and subsequent collection of federal funds.

The Commission does not maintain adequate records of its federal Equal Employment Opportunity Commission contracts and billings. During our review, we noted that the Commission could not readily determine the status of their EEOC contract billings and were uncertain whether the State's accounting records properly reflected contract activities.

This was created in part by the inconsistent methods of carrying forward the continuing balance of EEOC funds at the beginning of each Fiscal Year from 1976 through 1980.

To avoid any further confusion or possible delays in billing for EEOC contract funds, the Commission should establish files with a copy of the contract and associated billings. In addition, the billings should be reconciled monthly to the Revenue Journal in a timely fashion. A review of the billings for the past four to five years should be performed to ensure that the federal funds have properly been accounted for.

APPENDIXES

APPENDIX A

SCHEDULE OF CASE ACTIVITY
For Fiscal Year 1979

Cases Open at End of Prior Period	654
New Filings This Period	369
Cases Closed This Period	479
Cases Open At End Of This Period	544

ANALYSIS OF NEW FILINGS
BY TYPE

<u>Type</u>	<u>Number of Cases</u>	<u>Percent of Total Cases</u>
Coercion	2	0.5%
Employment	322	87.2
Finance	5	1.4
Government Practices	18	4.9
Housing	9	2.4
Public Accommodations	11	3.0
Retaliation	1	0.3
Other	1	0.3
<u>Total</u>	<u>369</u>	<u>100 0%</u>

APPENDIX B
ANALYSIS OF CASES CLOSED
BY TYPE

<u>Type</u>	<u>Number of Cases</u>	<u>Percent of Total Cases</u>
Coercion	-0-	-0-%
Employment	436	91.0
Finance	10	2.1
Government Practices	12	2.5
Housing	11	2.3
Public Accommodations	9	1.9
Retaliation	-0-	-0-
Other	1	0.2
<u>Total</u>	<u>479</u>	<u>100.0%</u>

APPENDIX C
ANALYSIS OF OPEN CASES
BY TYPE

<u>Type</u>	<u>Number of Cases</u>	<u>Percent of Total Cases</u>
Employment (Note 1)	502	92.3%
Finance	-0-	-0-
Government Practices	23	4.2
Housing	9	1.7
Public Accommodations	<u>10</u>	<u>1.8</u>
<u>Total</u>	<u><u>544</u></u>	<u><u>100.0%</u></u>

Note 1

Includes 415 cases or 83% which were co-filed with the federal Equal Employment Opportunity Commission.

APPENDIX D

QUESTIONNAIRE TO ATTORNEYS WHO HAVE PRACTICED
BEFORE THE ALASKA STATE COMMISSION FOR HUMAN RIGHTS

Instructions

Please complete the following schedules regarding the Human Rights Commission's authority and procedures.

1. Evaluate the statutory authority in the following areas (consider clarity, relevance, and effectiveness to the Commission's activities):

	Very Adequate	Adequate	Borderline	Inadequate*	Very Inadequate*	No Basis to Judge	
Complaints	4	12	2	2	1	1	
Investigation & Conciliation	5	9	5	1	2	1	
Hearing	6	7	3	3	0	2	
Orders	4	9	2	5	0	1	
Enforcement	6	5	3	2	0	4	
Discriminatory practices prohibited	7	7	2	2	2	1	

*Please cite statutory section & briefly explain.
"See following page for comments".

Question No. 1 - Comments:

1. HRC extremely difficult group to deal with. Need people who have experience with employers and their problems.
 2. Shouldn't provide for Executive Director filing. Lack of due process and equal protection. Should spell out that marital status discrimination not just for females.
 3. HRC staff not impartial. Investigates only one side of complaint. Respondent should have equal discovery as commission. No time limit on investigative stage. Need more specific procedural details. Hearings not impartial. Upon groundless findings complainant should pay respondent's attorney fees and others.
 4. Complaints should list witnesses. Commission remedies are unfair and unjust. Need qualified hearing examiner. Should have standard APA. AS 18.80.145. Should be revised so defendant can serve a copy. Age and religion should be in line with federal discrimination coverages.
 5. Lack of specificity of charges.
2. Evaluate HRC regulations in the following areas (consider clarity, relevance and effectiveness to the Commission's activities):

	Very Adequate	Adequate	Borderline	Inadequate*	Very Inadequate*	No Basis To Judge	
Complaints	4	9	5	3	0	1	
Investigation & Conciliation	3	9	3	4	2	1	
Hearing	3	7	2	5	2	2	
Orders	3	12	2	3	0	1	
Enforcement	3	7	4	2	1	4	
Discriminatory practices prohibited	5	9	3	2	1	1	

*Please cite statutory section & briefly explain.
"See following page for comments".

Question No. 2 - Comments:

1. *HRC needs its regulatory authority severely circumscribed. Authority given abuse. No longer serve in public interest. Should be bound by EEOC guidelines. Discovery procedures are atrocious.*
 2. *Absence of regulation of due process and equal protection.*
 3. *Should list witnesses. Commission should state relief sought. Guidelines have no lawful authority. Interrogatory period too short. Hearing examiner should have pre-trial authority. Should be rule - dismissing case if not prosecuted within one year.*
 4. *Inadequate regulations.*
 5. *More specificity in complaints. Detail guidelines.*
 6. *Investigation should be quick.*
 7. *More precise regulations, and procedures.*
 8. *Lack of regulation on discovery rules and resolution conference.*
 9. *Commission needs to divulge information at an early stage in proceedings.*
- 3., To what effect, if any, are the Commission's resolution conference procedures in resolving complaints?

1 Very Effective

4 Effective

3 Marginal or borderline

5 Ineffective

2 Very Ineffective

5 No basis to judge

Comments:

1. *Inflexible and rigid in approach. Tied into a preconceived notion of facts and outcome.*
2. *Poor quality of investigations. More should precede conference.*

3. Comments (Cont'd.)

3. *No expressed authority for holding resolution conference. Commission staff are poor mediators.*
4. *Effectiveness depends on person.*
5. *Should have complete investigations before conference.*
6. *Limitation should be set on investigation. Respondent is forced into settlement due to cost.*
7. *Confusion may exist between "objective" role of investigator and the "protective" sanction of the Commission.*
8. *HRC not aggressive at hearing. Little pressure for respondent to settle.*
9. *Commission assumes guilt.*
10. *Procedures encourage distrust.*
11. *Lack of legal training of commission members causes cases not to end at conference.*
12. *Saves significant effort by resolving questions of complainant in initial stages.*

4. To what effect, if any, are the Commission's procedures for conciliation conferences in resolving complaints?

- 2 Very Effective
- 5 Effective
- 2 Marginal or borderline
- 4 Ineffective
- 5 Very Ineffective
- 3 No basis to judge

Comments:

1. *Agert unwilling to negotiate relevant terms.*
2. *Unsubstantiated testimony and ability to prevent other side from seeing evidence causes overturned findings.*

4. Comments (Cont'd.)

3. *Effectiveness depends on person.*
4. *Conciliation conference exist only on paper.*
5. *Faster case handling.*
6. *Commission evidence is bias in favor of complainants especially if female or minority.*
7. *Essential to prevent unnecessary litigation when probable cause determination is made.*

5. Are the hearing procedures legally proper?

Yes 11 No 6

If no, please list procedures which need to be added, amended and/or deleted.

Comments:

1. *Denies due process to employer to make them come forward 3 or 4 years after incident.*
2. *HRC regulations give substcnrtial latitude to hearing officer which doesn't insure legal hearings.*
3. *Lack of due process and equal protection taints hearings.*
4. *Need evidence rules.*
5. *Procedures not efficient.*
6. *Discovery rule should be from Alaska Rules of Civil Procedure.*
7. *More specific discovery rules. Need procedures to challenge examiners.*
8. *Commission members need to be instructed on their procedures.*

6. How efficient are the Commission's hearing procedures?

- 3 Very Inefficient*
- 4 Inefficient*
- 5 Marginal or borderline
- 4 Efficient
- 0 Very Efficient

*Please list procedures which need to be added, amended and/or deleted.

Comments:

1. *Should acquire more attorneys rather than lay people.*
2. *Lack of discovery. Inability to compel adverse witness to be present.*
3. *Hearing procedures need constitutional scrutiny under due process clause.*
4. *Should have one year limitation, afterwards dismiss case.*
5. *Hearings are too slow. Need permanent hearing examiner.*
6. *More explicit procedures.*
7. *Inadequate documentation on procedural questions.*
8. *Hearing examiner is incapable of conducting hearing.*

7. Any additional comments.

Comments:

1. *HRC administers and maintains an important responsibility.*
2. *HRC dominated by social zealots with little sensitivity. Should confine themselves to systematic discrimination.*
3. *HRC should adopt regulations requiring parties to proceed in a diligent manner to avoid lack of due process.*

7. Comments (Cont'd.)

4. *HRC poorly administered. Investigation and conciliation process lacks semblance of due process.*
5. *Commission is poorly run. Need efficient and professional staff.*
6. *Over-worked and incompetent staff.*
7. *Time limitations are too brief.*
8. *Need regulation on costs and attorney fees against respondent.*
9. *Systemic Unit work needs regulations.*
10. *Investigators lack training.*
11. *Commission needs upgrading. Over-worked staff. More attorneys needed.*
12. *Experience with HRC was good. Attorneys and investigators were helpful and candid in approaching sex discrimination cases.*
13. *Commission are complainant prone.*
14. *Increase investigators and reduce salary.*
15. *Need careful screening. More streamline process.*
16. *HRC is bureaucratic. Valid claims wait 2 to 3 years before receiving hearing. Have untrained personnel. Due process rights of respondent non-existent. Members need training in discrimination and constitutional law. Commission should follow EEOC procedures.*

Note 1

Number of questionnaires sent to attorneys practicing before the ASCHR.	41
Number of responses received.	23
Response rate.	56%

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

HUMAN RIGHTS COMMISSION

204 East 5th Avenue
Room 213
Anchorage, Alaska 99501
Phone: 276-7474

December 4, 1979

RECEIVED

DEC 5 1979

Mr. Gerald L. Wilkerson
Legislative Auditor
Pouch W
Juneau, AK 99811

LEGISLATIVE
AUDIT

Dear Mr. Wilkerson,

The following are responses of the Human Rights Commission to the six recommendations dated October 15 (received in my office November 27) growing out of your agency's performance review of the Human Rights Commission.

Recommendation Number 1: ASCHR should allow its federal counterpart, the Equal Employment Opportunity Commission (EEOC), to process all employment discrimination complaints within its jurisdiction.

This recommendation suggests that the Legislature force the Commission, by way of further budget reductions, to stop enforcing most of Alaska's laws against employment discrimination. Employment discrimination is the most common allegation filed with the Commission. Eliminating employment discrimination is the key to economic self-sufficiency, decent housing, credit and business opportunities for minority groups, women, the elderly, handicapped and others protected by civil rights legislation.

Elimination of the Commission's work on this subject in favor of the federal government would be the most serious step backwards for civil rights in Alaska's history. It is contrary to the thrust of the Alaska constitution and completely at odds with this state's historic struggle to free itself from the dictates of the federal government. Finally, the recommendation is contrary to the intent of the federal employment discrimination law.

That federal law prohibits EEOC from beginning investigation of a case for 60 days if a state has the authority to deal with the issue. EEOC is required to grant "substantial weight to the final findings and orders" of state civil rights agencies. Funding is made available by this statute for these state activities. Federal court decisions have consistently cited the intent of Congress to keep the federal government out of civil rights matters if a comparable state capacity exists.

Except for a very few states in the deep South, every state in the nation has an agency like this Commission for resolving employment discrimination complaints before they become "federal cases". If this recommendation is adopted, Alaska will become the first state in the nation to abandon its rights as a state in the civil rights area.

Alaska has the right under many other federal laws to keep the federal nose out of its tent. We do not hear the Audit Division urging Alaska to withdraw from its right to regulate the environment, manage fish and wildlife, maintain truth in lending, highway safety, safe working conditions and ensure untainted meat and poultry. This recommendation is limited to the civil rights of Alaskans.

In each of these other laws Congress has expressly provided for the states to take the lead. The federal policy is to use federal enforcement as a last resort; enforcement agents are allocated only on a limited basis and mostly to those areas where states are unwilling to "clean their own houses".

There is no guarantee that EEOC would be responsive to Alaskans if this recommendation were adopted as an alleged economy measure. EEOC would probably not open an office here; its Seattle office would receive only a trickle of complaints as the public quickly realized that distant federal civil rights agents would give Alaskans, particularly those in rural areas, no better consideration than Alaskans are accustomed to receiving at the hands of any other federal agent who does not live here and does not know local conditions.

We also doubt that employers would express a preference for responding to the orders of federal agents, or for fighting lawsuits in federal court. The Commission holds informal administrative hearings before Alaskan Commissioners when its staff cannot resolve a case; EEOC brings suit in federal court at that stage.

EEOC cannot enforce the higher standard for non-discrimination which exists under Alaska state law. According to the Alaska Supreme Court:

...we have repeatedly recognized that [Alaska's employment discrimination law] is not only "modelled on" the federal law, thus making federal case law more relevant, [citation omitted], but is intended to be more broadly interpreted than federal law to futher the goal of eradication of discrimination. [citation omitted] Wondzell v. Alaska Wood Products, (Docket No. 1720, June 1, 1979.)

The Commission is processing cases under standards which have been found to provide a superior level of protection for the civil rights of Alaskans. Because the federal law is weaker,

EEOC is powerless to maintain this standard. This is true not only in those cases which the Commission can handle and which EEOC cannot, but also in those cases in which both agencies have jurisdiction. (Your report indicates 87 cases as of June 30, 1979 in which EEOC did not have jurisdiction: we believe this is a subtraction error and that the correct figure, according to our computerized records, was 129 cases.)

This recommendation has doubtless been advanced in good faith by the Audit Division's team of certified public accountants. They are not lawyers or program analysts, of course. Auditors focus on spending procedures. Unfortunately, auditors are not always equipped to perceive legal and ethical obligations which a state constitution can place upon a legislature and an executive agency. The Alaska Constitution commands the Legislature to "implement" its equal rights provision. Fundamental moral and ethical considerations underlie it. A legislatively-mandated refusal to process most employment discrimination cases under state law would run counter to these constitutional obligations.

The lack of understanding which this recommendation exhibits, as we argued repeatedly during the course of the audit, can create a serious civil rights problem in Alaska. It will be a disappointing chapter in Alaska history if the next few months bring us a campaign in support of this recommendation by those who oppose effective civil rights enforcement in the face of consternation and protest from those the law protects. We therefore urge the Legislature to reject Recommendation Number 1 promptly.

Recommendation Number 2: The statutes and regulations governing ASCHR should be revised.

The Commission welcomes the support of the Legislative Audit Division in recognizing the need to update the Commission's law and regulations. The Legislature's last major revision of the statute and the Commission's major updating of its regulations occurred in 1975. Since then, more sophisticated procedures have been tested out and have created a need for further refinements. As you correctly noted, certain individual cases have also raised issues which should now be dealt with, either through statutory changes or amendments to regulations. That process is already in progress. Although our internal review is very broad, there were certain specific concerns voiced in your report:

1. The words "physically handicapped" are not defined in the statute, but the Commission has attempted to do so in its regulations at 6 AAC 30.170(b). This definition was adopted after a study of similar definitions in other jurisdictions. The Commission suggests that the Legislature examine this regulation to determine whether it

meets Legislative intent, preserving the option of defining these words in the statute if the Legislature believes such to be appropriate.

2. The definition of "employer" at AS 18.80.300(3) is worded in such a way that it invites some entities, including the University of Alaska, to argue that they are not subject to the jurisdiction of the Human Rights Commission. The Alaska Supreme Court implied agreement with this position in a footnote in the Brown v. Wood case. The problem stems from an ambiguous reference to non-profit "association or corporation". The Commission would welcome any clarification by the Legislature of what entities it wishes to cover. In its cases the Commission has been asserting jurisdiction over most entities which employ persons, anticipating that a court challenge would clarify matters. No such case has actually been decided by a court in Alaska, however, and so the time may now be ripe for action by the Legislature.

3. The only open question concerning damages is whether compensatory and punitive damages are available as remedies for certain types of cases. This issue is now pending before the Alaska Supreme Court in the form of an appeal from an order in which the Commission awarded compensatory and punitive damages to an individual who was discriminated against in a place of public accommodation. If the Commission's interpretation is sustained, the Court's opinion would obviate the need for clarification by the Legislature. On the other hand, if this case holds that the Commission does not have such authority, then would be the appropriate time for the Legislature to consider that issue. The decision will not necessarily clarify the Commission's authority in employment discrimination cases, however, although the authority to award back pay, the most common remedy, is clear.

4. As your report points out, the definition of "unlawful discriminatory practice" is at issue in a case now pending before the Commission. For this reason, the Commission does not wish to prejudice its forthcoming decision on this case by commenting on your recommendation at this time.

5. The Commission is currently at work preparing amendments to regulations governing the investigative process. These will reflect its current practice of conducting resolution conferences as part of the investigative stage of processing complaints. The purpose of such a regulation is to inform the public more adequately of procedures the Commission uses.

6. Regulation changes are also currently in process to further define the procedures the Commission use, at

administrative hearings. Existing hearing regulations govern subpoenas, depositions, hearing notices and answers, powers and duties of Examiners and Commissioners during hearings, transcripts, orders, and reopening of proceedings. These regulations do not adequately set standards for discovery by the parties to the administrative hearing, or specify what rules of evidence will be employed, however. It is in these areas that the Commission is currently working to draft amendments.

Recommendation Number 3: AS 23.10.155-185 should be repealed to eliminate duplication of statutory authority between the Department of Labor and ASCHR.

The Commissioner of Labor previously agreed, independent of your study, that the Commission should take over enforcement of equal pay violations. The Commission is prepared to accept this assignment, if that is the wish of the Legislature. It is not clear whether the best course is to repeal AS 23.10.155-185, leaving undisturbed the analogous Human Rights provision at AS 18.80.220(a)(5). It might be preferable to transfer to the Commission certain provisions of the statutes now administered by the Labor Department and repeal what now appears in the Human Rights Law. The reason for this approach would be to preserve an interpretation of the Labor Department law which has already been issued by the Supreme Court of Alaska in the Brown v. Wood case. This approach would also make it clear that the University is covered by equal pay legislation. We suggest that the advice of the Department of Law, Legislative Research, and the Commission on the Status of Women be sought on this question.

Recommendation Number 4: ASCHR should process complaints in a more timely fashion and implement procedures to eliminate the case backlog.

This recommendation becomes more clear upon reading the two sub-recommendations contained within this section. Your report describes the substantial difficulty which exists at present with the processing of backlogged cases because of the budget reduction the Commission is experiencing during the current fiscal year.

The Governor's Budget Review Committee has granted the Human Rights Commission a \$200,000 increase from a floor established at a level equal to 95% of its current (FY80) budget. This increase would return the Commission to its full staffing level. Additionally, the increase would enable some expansion of the Commission's Systemic Program under which it examines major issues of discrimination affecting many people with a single case. If the Governor's budget for the Commission is accepted by the Legislature, your recommendation will have been substantially implemented, although with significant delay caused by the funding reduction in the current budget year.

Your second recommendation associated with Recommendation Number 4 was implemented before it was made, effective with the October 1 EEOC contract. All charges received after October 1 are to be completed with an average processing time of 180 days. On these cases there will be heavy emphasis on negotiated settlements at the earliest possible time. All cases received prior to October 1 are considered backlog cases to be resolved as time permits. Had the Commission continued with level funding during this FY80 budget year, the backlog group of cases would have been eliminated late in 1980. This date will be postponed by approximately 12 months and this contract commitment to EEOC will probably not be met because of the FY80 funding reduction.

Recommendation Number 5: ASCHR should submit journal vouchers, which properly allocate its Fiscal Year 1980 appropriation between authorization - expenditure accounts to Budget and Management for approval and further processing.

The Commission agrees that expenses charged to the EEOC account, and that portion of the appropriation originating with EEOC, should be accounted for separately from the General Fund appropriation. Steps have been taken to separate out the Federal authorization so that the EEOC fund balance will be shown on budget printouts monthly, beginning with the November 30 runs.

Whether the state and federal appropriations should be fully allocated to the program accounts, however, is debatable. Further discussions with your staff have surfaced the suggestions that the personal services appropriation and expenditures need not be allocated to the program accounts, since expenditures are only based upon estimates (not detailed hourly records) of how each staff person spends his or her time. We have accepted your recommendation that most travel, contractual, commodities and equipment appropriations be allocated to program accounts. Accordingly, we have elected this option, effective December 31, 1979.

Recommendation Number 6: The Commission should improve its procedures for monitoring the billing and subsequent collection of Federal funds.

The difficulty with tracking Federal receipts stems from the fact that bills are prepared for EEOC at the Commission's Anchorage Headquarters office, but Federal checks are sent to the Governor's administrative office in Juneau which processes them to the Commission's account. We have verified that all but the two most recent Federal receivables have in fact been collected and posted to our account. The system of tracking this process at the Commission's Headquarters office now ensures that future fund collections will be monitored fully.

Additional comment: Appendix D

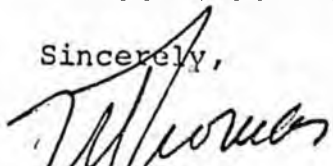
The last appendix to the report merits additional comment in order to place its contents in perspective. The audit staff canvassed "attorneys who have practiced before the Commission". Virtually all of these attorneys are those who have represented entities charged with discriminatory practices, since few complainants have the money to hire a lawyer. Therefore the comments reproduced at Appendix D are one-sided in that they represent only the point of view of those charged with protecting employers and others from liability under the Human Rights Law.

We believe it is significant that Alaska's courts have not accepted these points of view about the Commission, its procedures, its examiners or its staff when these concerns are raised as issues in cases.

A more complete picture of public opinion about the Commission might have been presented if those who have filed complaints had been canvassed, too. In the past five years the Commission has resolved 2452 cases, 146 fewer than it has accepted, returning losses and other benefits caused by discrimination to Alaskans in the amount of \$2,226,000. That does not include the ancillary benefit of discriminatory practices which people abandon voluntarily because they know the Commission will effectively eliminate it if cases are filed. Nor does it measure the cost savings in public spending on unemployment, welfare, additional schooling and training, etc., on behalf of those groups historically discriminated against when discrimination is reduced. That preventive medicine is the Commission's greatest success, and the best rationale for continuing its activities at least at the present level.

The Commission appreciates your concern for its program. We trust that your alternative to an EEOC takeover of employment cases, namely, full funding for the Commission, represents a belief that the Commission is effectively and efficiently protecting the civil rights of all Alaskans in a fashion consistent with the intent of the Legislature.

Sincerely,



Noel Thomas
Executive Director

cc: Governor Jay Hammond

THE LEGISLATURE

FINANCE DIVISION
POUCH WF—STATE CAPITOL

BUDGET AND AUDIT COMMITTEE

JUNEAU, ALASKA 99811

December 11, 1979

Members of the
Legislative Budget and Audit Committee:

We have reviewed the response of the Office of the Governor, Alaska State Commission for Human Rights (ASCHR), to our preliminary audit. The following are our comments on the response with respect to Recommendation No. 1.

Recommendation No. 1

ASCHR should allow its federal counterpart, the Equal Employment Opportunity Commission (EEOC), to process all employment discrimination complaints within its jurisdiction.

ASCHR has indicated complete disagreement with this recommendation. Several of the statements in their response are inaccurate or misleading:

ASCHR Response

"EEOC would probably not open an office here; its Seattle office would receive a trickle of complaints as the public quickly realized that distant federal civil rights agents would give Alaskans, particularly those in rural areas, no better consideration than Alaskans are accustomed to receiving at the hands of any other federal agent who does not live here and does not know local conditions."

Legislative Audit Comment

We believe it is unrealistic to assume EEOC would not open an Alaska office if they became responsible for a majority of employment discrimination complaints in this State. The high level of complaints of this nature would require an adequately staffed, in-state office. Moreover, during a discussion with the EEOC Regional Director in Seattle, he stated EEOC would have to open an Alaska office if these responsibilities became theirs.

ASCHR Response

"We also doubt employers would express a preference for responding to the orders of federal agents, or for fighting lawsuits in federal court. The Commission holds informal administrative hearings before Alaskan Commissioners when its staff cannot resolve a case; EEOC brings suit in federal court at that stage."

Legislative Audit Comment

Whether employers would prefer to be investigated and prosecuted by state employees or federal employees is conjectural. However, in this context it is useful to review several statistics on ASCHR performance:

1. As discussed at Recommendation No. 4, with respect to the ASCHR cases closed during FY 1979 which progressed as far as an informal commission hearing, the average time elapsed from date of complaint to date of hearing was 40.9 months. We question the quality of services being provided when conclusions are so untimely.
2. We reviewed 30% of all ASCHR cases closed during FY 1979; 65% were closed for the following reasons:

31.2%	No probable cause.
20.6%	Failure of complainant to cooperate or proceed.
<u>13.5%</u>	Withdrawal of complaint.
<u>65.3%</u>	

It appears that ineffective screening of complaints is a factor contributing to the large ASCHR backlog and untimely resolution of complaints.

3. As of June 30, 1979, ASCHR had 544 open cases and 24 authorized positions. As of September 30, 1979, EEOC had approximately 400 open cases and a staff of 77 persons.

We cannot predict an employers preference, as already mentioned; however, it appears EEOC performance does not compare unfavorably with ASCHR.

ASCHR Response

"(Your report indicates 87 cases as of June 30, 1979 in which EEOC did not have jurisdiction: We believe this is a subtraction error and that the correct figure, according to our computerized records, was 129 cases.)"


Legislative Audit Comment

Our reported figure of 87 cases is correct. This is the number of employment related discrimination cases at June 30, 1979, over which EEOC did not have jurisdiction:

ASCHR cases open at June 30, 1979	544
Employment related - EEOC jurisdiction	<u>(415)</u>
Cases at June 30, 1979 - no EEOC jurisdiction	129
Employment related	<u>(87)</u>
Other (housing, public accommodations, etc.)	<u>42</u>

It is apparent there is a serious need for antidiscrimination activities in Alaska as evidenced by the large number of complaints which occur. It would be imprudent to suggest curtailment of a portion of these activities on solely economic grounds. At the same time, it would be imprudent to ignore an opportunity to let the Federal Government bear the cost of some of these activities as long as the quality or quantity of the service was not diminished. There is evidence indicating federal participation in antidiscriminatory activities should be at least equal, and perhaps even superior, to state agency activities.

Another consideration for the Legislature is additional funding for the areas of discriminatory practices which will remain within the state's jurisdiction. Should implementation of Recommendation No: 1 result in savings of \$700,000 or \$800,000, a portion of the savings could be appropriated by the Legislature to a reorganized ASCHR which could deal with all discriminatory activities outside of the federal jurisdiction. Funding should then be adequate for ASCHR to pursue these antidiscriminatory activities in a more effective and efficient manner than in the past.



Gerald L. Wilkerson, CPA
Legislative Auditor
Division of Legislative Audit

BOARD: HUMAN RIGHTS, STATE COMMISSION FOR

TITLE: State Commission for Human Rights

DEPT: Office of the Governor

AUTHORITY: AS 18.80.010

STATUS: ACTIVE

REQUIREMENTS: LEGISLATIVE CONFIRMATION AND FINANCIAL DISCLOSURE

PROHIBITIONS:

TERM: 5-year - staggered

DESCRIPTION: 7 members appointed by Governor; Commission appoints Executive Director approved by Governor; Commission elects chair.

SPECIAL FACTS:

FUNCTION: To seek out and eradicate discrimination in employment, credit and financing practices, sale or lease of property, etc.; assess progress on equal employment opportunity by State departments; hold hearings; process complaints from the public.

COMPENSATION: Standard travel/per diem

MEETINGS: Regular annual meeting; 4-5 hearings per year; 8 days maximum

*FOR FURTHER INFORMATION CONTACT: Executive Director, Human Rights Commission, 431 West Seventh Avenue, Suite 105, Anchorage, AK 99501 - 276-7474

Human Rights Commission

<u>MEMBER</u>	<u>APPT</u>	<u>REAPPT</u>	<u>TERM</u>
James H. Chase 3023 Madison Way Anchorage 99504 Public	80/12/15		86/01/31
Arlene Dilts 157 Nowell Avenue Juneau 99801 Public	80/04/09		85/01/31
John Grnzales P.O. Box 320 Clear 99704 Public - Chair	80/03/10		85/01/31
Bienvenido E. Holganza P.O. Box 14 Juneau 99802 Public	83/04/08		87/01/31
Virgie M. King 4010 Birch Way Fairbanks 99701 Public	83/04/08		88/01/31
Jacqueline S. Lindauer 3933 Geneva Place Anchorage 99504 Public	83/05/20		88/01/31
Morgan P. Solomon P.O. Box 723 Barrow 99723 Public	81/12/11	84/02/15	89/01/31

QUESTIONS: OVERVIEW HEARING: ALASKA STATE COMMISSION ON HUMAN RIGHTS
BEFORE THE HOUSE STATE AFFAIRS COMMITTEE
TUESDAY, FEBRUARY 26, 1985

1. THE COMMISSION HAS BEEN CHARGED WITH TAKING AN EXTRORDINARILY LONG TIME TO SETTLE CASES BROUGHT BEFORE THEM.
 - What is the average length of time per case?
 - Has that time decreased as a result of implementing recommendations from the OMB audit?
 - What is the average length of time from the time a person brings a complaint to the commission before they have their first interview?
 - Who takes the complaints in the first place? Is there a procedure for finding out whether the particular complaint is in the jurisdiction of the HRC? Is a complaints inquiry held as confidential even through the HRC finds they have no jurisdiction and must refer the person elsewhere?

2. GENERAL CASELOAD CONSIDERATIONS
 - How does the caseload for Alaskan investigators compare with the state's caseload?
 - How does the length of time to finish a case compare with other states agencies?
 - Has the staffing level kept up with the increased case load.
 - Are there any noticeable differences lately in the number, quality and type of complaints? (In other words, are you seeing a rise in sexual harrassment complaints, a lowering of race discrimination complaints or any other trends?)
 - What can the legislature do to relieve the caseload pressure:
 - more staff
 - more money
 - better, more easily enforcible laws
 - support for an in-agency EEO to handle initial complaints before they get to the HRC

3. ABOUT COMPLAINTS AGAINST OTHER STATE AGENCIES
 - What particular problems are presented to the HRC when pursuing complaints agains another state agency?
 - What can the legislature do to help?
 - Do some state agencies stand out as having a disproportionate number of HRC complaints? What kind of complaints are they? (race, sex, age etc.)
 - Does the commission alert the Governors office when a given state agency appears to have a large number of specific complaints (on the theory that where there is smoke there is fire).