Comments by Pam Varni August 8, 2013

1. Page 2 of 22 – Rental Property and Rental Rate.

   The latest version for cost per square foot went from rentable to gross. As I have stated before, all of the Legislature's leases are usable square feet, as are the Executive Branch leases. Basing the rate on gross is not a benefit to the Legislature and increases the overall lease costs. Calculating on rentable is more easily justified since we will be occupying the entire building. What is the justification for using gross square feet? If we had done an RFP, we would be asking for usable office space with windows; we would also not be requesting over 9,000 square feet of basement space. We currently have 811 square feet of basement space at 716 W. 4th Avenue and we rent an additional 480 square feet offsite for $1.20 per square foot. We used to have a conference room in the basement but it was rarely used so we gave up that space. I believe basement space will be undesirable and therefore underutilized. We should not be paying the same per square foot rate for it. The Chris Stephens Commercial Brokerage Opinion of Lease Rate (dated May 5, 2013) for our existing lease at 716 W. 4th Avenue valued the basement rate at $1.00 per square foot. Under the terms of this proposal, we will be paying four times the amount for basement space as we are currently and even more compared to his valuation.

   Under this proposal, 712 and 716 will not be retail space but rather an office building; again, we should not be calculating the lease on gross square feet. As I have stated above, we are already paying additional per square foot costs switching from usable to rentable. Total Gross Building Area is computed by measuring to the outside finished surface of permanent outer building walls without any deductions. All enclosed floors of the building including basements, mechanical equipment floors, penthouses, and the like are included in the measurement. We should not be leasing the penthouse, vertical penetrations, mechanical equipment, etc., which amounts to paying for space we don't occupy.

2. Page 3 of 22 – The Base Monthly Rental is $230,630 (this number needs to be grossed up to include the cost of Property Taxes and Insurance)

   Why is there a comment about grossing up the number for property taxes and insurance? When will there be firm numbers? The monthly rental rate of $230,630 comes to $3.60 sq. ft. with an additional proposal to do a partial triple net with an estimated cost of over $600,000 per year on top of that rate. With the figures presented so far, I estimate our cost to be over $5.00 per square foot for a ten year lease. It is worth noting that this Anchorage lease as proposed will be the most expensive Anchorage lease for the State of Alaska (see attached exhibit of Anchorage leases by the Executive Branch). Also, for comparison purposes, I had Research run the numbers comparing the other proposals for Anchorage legislative office space that have been before Legislative Council and this proposal. As you can see, this proposal is by far the most expensive of any previous proposals over a 30-year period (see attached).

3. Page 3 of 22 – CPI Removed, 3% yearly increase in rent

   The percentage of change in CPI-U needs to be back in the lease. Automatically adding a 3% increase to the total monthly rent is excessive. The calculation for the CPI-U is 35% x base monthly rent x % change in CPI-U, not 100% over the previous month's rent every July 1. As proposed, our costs will increase 3 times as much as the State of Alaska pays for CPI-U increases in rent. For example, our normal CPI-U increase on the $230,630 (35% x base monthly rental rate x % of change in CPI-U (we will use 3% as an example) would be an increase of $2,421.62/month versus $6,918.90/month ($230,630 x 3%). Also, the CPI-U calculations are meant to compensate the Lessor for the increase in utilities. Under the proposal, the Legislature pays the utilities, etc., under a partial triple net. What is the justification for a 3% yearly increase of rent under those terms?

4. Page 3 of 22 – Monthly Rental Payments Sent by Wire Transfer

   The State of Alaska does not at this time pay by wire transfer unless it is to a foreign entity or a payment over a million dollars. Our $230,630 a month would not qualify. Our Accounting Section has all our leases on "Scheduled Payments" and the Department of Administration issues payment before the first of the month.

5. Page 5 of 22 – Tenant Improvements

   The State of Alaska separates the leasehold improvement costs from the base lease cost. Contrast that standard with this proposal which includes in the base lease cost rental rate a portion of the leasehold improvement costs in the amount of $2,685,760. When the State of Alaska goes out to bid, they have the leasehold improvement portion of construction distinct from the primary structure so that it is limited to the construction needs specific to the requirement of the Agency's solicitation and does not include the basic structure of the building or construction in common areas. The complete new construction of a facility is not considered leasehold improvements. Only a percentage as deemed directly connected with the Agency's needs are identified as leasehold improvements, i.e., partition walls and electrical and data outlets required to meet specific needs of the Agency. Where are the figures to show we are only paying for normal tenant improvements, (i.e. partition walls, electrical, etc.) not for the structure, etc.?

   Our Fairbanks Class A rental space cost $62.50 per square foot for leasehold improvements; and these leasehold improvements were not included in the base rent. This proposal requests a leasehold improvement rate of $120 per square foot, twice that amount. What is the justification for the disparity?

6. Page 6 of 22 – Utilities and Services

   I strongly recommend we have a full service lease and know exactly what our price per square foot is minus 10% to show the savings required under a lease extension. It seems we are assuming too much risk and unknown costs for a ten year period without a substantial reduction in rent to accommodate our maintaining the building and parking areas for maintenance, utilities, janitorial, elevators, fire alarm, HVAC, plumbing repairs, etc.

   Other legislative leases require the Lessor at least every five years to renovate the space for worn walls, ceilings, floors and replace damaged or worn wall, floor, or window coverings or paint. This proposal has the Legislature assuming that cost and responsibility.

7. Page 7 of 22 – Electrical Outlets

   Our language of electrical outlets every 8 linear feet of wall space is standard RFP language. In fact, the Executive Branch electrical requirements further state, "and one duplex outlet on every wall less than eight linear feet." I do not see a copy of the Approval Plans to ensure we have adequate electrical requirements. I would like to keep our 8 linear feet language and add a section that the Agency will review plans and negotiate with the Lessor to review the electrical requirements.

8. Page 12 of 22 – Maintenance and Repair

   The Lessee should keep the building and the areas immediately surrounding, and belonging to the building, free from objectionable tenancy, odors, vermin, rodents, and other features that will in the opinion of the Lessee be detrimental to Lessee's operation. With the Glacier Brewhouse, Orzo, etc. around our existing building, we have had had multiple problems with urine, cigarettes, blood, etc. The Lessor should take responsibility and not have us cleaning up the mess from the surrounding properties.

   I suggest we have a full service lease and not substitute Lessor with Lessee.

9. Page 19 of 22 – Reimbursement

   I don't think the documentation section should come out. I also can see the Agency paying for design, engineering, etc. that was specific to our requirements, but not for items that are for the structure that would then be of benefit to the Lessor or another tenant.

I'm pleased to discuss further at your convenience.