



To: Corri Feige, Chair
Resource Management Committee
Through: Jusdi Warner, Executive Director
From: David MacDonald, Chief Real Estate Officer
Date: July 30, 2024
Re: Trust Authority Building Repair/Renovation Options
Fiscal Year: 2025

Approval

Proposed Motion:

***Proposed Motion:** “Regarding the Trust Authority Building (TAB), the Resource Management Committee has chosen from the eight future TAB management options presented by the Trust Land Office (TLO) at the July 30, 2024 meeting and directs the TLO to research those Committee’s chosen options and to provide additional information about those chosen options before this Committee at a later date.”*

Background:

Property Description/Acreage/MH Parcel(s): Trust Authority Building (TAB) located at 3745 Community Park Loop, Anchorage, Alaska / Lot 2, Block 1, of the Community Park Alaska Subdivision, containing 4.08 acres, more or less / SM-1524.

General Background: The TAB (formerly the Family Resources Center) was constructed in 1985 for, and has been in, use as a social service building for nearly forty years. The site is an irregular-shaped interior lot containing approximately 177,550 square feet (SF). The structure located on the lot is a steel frame construction building. The gross building area is approximately 24,850 SF, plus a 748 SF roof-mounted clerestory and a 336 SF mechanical penthouse. Approximately 21,900 SF is unit space available for rent. There is also approximately 1,000 SF of roof patio area accessible from the second story. Presently, the building is occupied by the Trust Authority (no rent or lease term), Long-Term Care Ombudsman (at market rent monthly; leased month-month, but renewed annually on July 1st with CPI adjustment), and Anchorage School District (at market rent monthly; lease terminates 7/31/2025).

The building has a gross building area of approximately 15,850 SF on the ground level and approximately 9,000 SF on the second level. The building has a sprinkler system and an elevator and is ADA accessible. The site is heavily landscaped.

The site was originally Mental Health Trust land managed by the State. In 1978, State law was changed making it possible for the Municipality of Anchorage to select the parcel from the State as part of its municipal entitlement. Subsequently, the State transferred the parcel to the Municipality and the building was constructed on the site. The Municipality's Heritage Land Bank, which manages municipal property, leased the land for 20 years (1984-2004) for \$1 per year. The Municipality returned the land to the Mental Health Trust Authority and was able to select other state land. Thus, the Trust Authority, as owner of the property, became the lessor of the building. The facility has always been considered a public building and is intended to remain as such.

The Trust received title to the property and the 24,850 SF office building subject to an existing 20-year lease to Family Resource Center, Inc (FRC). After the initial lease term, the Trust Authority extended the lease to FRC and increased the rental rate, though the rate was still reduced from then current rental rates to allow FRC time to transition to market rates. In February 2005, the Trust Authority allowed FRC to modify and transfer its lease to Camp Fire USA, one of its founding partners, for a portion of the building at a reduced rental rate to accommodate Camp Fire's need for time to find adequate alternative space. On January 18, 2005, the FRC offered to purchase the building and associated real property from the Trust.

The TLO consulted with the Alaska Mental Health Trust Authority on April 19, 2005, to sell the building to FRC, while retaining the land under a long-term ground lease, subject to a new appraisal confirming the building and land values. The Alaska Mental Health Trust Authority Board of Trustees specified that the TLO consult with the Board's Resource Management Committee (RMC) at each step of the process. At the May 16, 2005, RMC meeting, the TLO discussed the new appraisal, which valued the building significantly less than anticipated, thereby making it uneconomic to sell. The rationale for finding the sale of the building in the best interest of the Trust could not be justified. Therefore, the RMC directed the TLO to evaluate leasing the building and potentially retaining a portion of the building for an Alaska Mental Health Trust Authority Office.

The TLO consulted with the AMHTA at its June 1, 2005, board meeting to retain and remodel the second floor of the building to be used by the Trust Authority as its administrative headquarters. The AMHTA Board approved allocations to renovate the building. The Board also authorized the Trust Authority use of space at less than fair market value pursuant to the provisions of 20 AAC 40.710 and based upon a finding that such action is in the best interests of the beneficiaries.

In 2012 the Trust was notified that the TAB's mechanical systems were going to need major renovations at some point in the near term. Again in 2017, it was brought to the Trust's attention that the TAB's mechanical systems were starting to show signs of potential failure and since 2018, the Trust has spent nearly \$400,000 on repairs to keep the building functional and safe. Presently, after almost 40 years of use, the TAB's mechanical systems are at the end of their useful life and at risk of failure. This includes HVAC components (roof top unit, boiler, controls, and piping), elevator components, and fire alarm system/panel components. These repairs and renovations will cost more than 10% of the building's appraised value, which then triggers the requirement to conform with Anchorage Municipal Code Title

21.12.060C. Title 21 requires all commercial buildings that have nonconforming characteristics of use and that are completing repair work that costs more than 10% of the appraised value of the structure to spend a minimum of 10% of the total project cost on code compliance improvements, adding additional cost to any repair or renovation work.

Given the magnitude of the cost involved in repairing and renovating the existing systems, it was deemed prudent to consider alternative options. Outlined below are the relevant options to consider regarding how to proceed with the Trust’s use and management of the TAB.

TAB Repair/Renovation Options:

| No. | Scenario | Square Feet | Cost PSF | Contingency | Cost | Rounded* |
|-----|-----------------------------|-------------|------------------------------------------------------|-------------|--------------|----------------|
| 1 | Partial renovation | 24,850 | \$250.00 | 10% | \$6,833,750 | \$7,000,000 |
| 2 | Full renovation | 24,850 | \$575.00 | 10% | \$15,717,625 | \$16,000,000 |
| 3 | Redevelop in kind | 24,850 | \$750.00 | 10% | \$20,501,250 | \$20,500,000 |
| 4 | Redevelop for TAO solely | 10,000 | \$750.00 | 10% | \$8,250,000 | \$8,250,000 |
| 5 | Redevelop for TAO & TLO | 18,000 | \$750.00 | 10% | \$14,850,000 | \$15,000,000 |
| 6 | Buy alternative building | 10,000 | \$600.00 | 10% | \$6,600,000 | \$6,600,000 |
| 7 | Lease alternative space | 10,000 | \$2.25 | 10% | \$297,000 | \$300,000/Year |
| 8 | Vacate ASD & delay decision | N/A | Costs are not applicable though income will be lost. | | | |

* Excludes moving costs, furniture, etc. Cost of lease excludes annual escalations.

Option 1 – Partial Renovation*

This option essentially reflects doing the minimum work necessary to prevent catastrophic failure of the critical building systems. Keep in mind that after 40 years of use, the mechanical systems are at the end of their useful life. This specifically includes HVAC components (roof top unit, boiler, controls, and piping), elevator components, and fire alarm system/panel components. And as these repairs and renovations will cost more than 10% of the building’s appraised value, compliance with Title 21 will be required.

It should also be noted that the work, estimated to take twelve months, will require the existing tenants to vacate the building. Our expectation is that tenants other than AMHTA, notably the Anchorage School District (ASD), will move only once and not return to the building.

While the cost involved in the partial renovation is significant, it is important to understand that various items will remain as they are and that they won’t last forever. Based on conversations with our architects and contractors, we will ultimately have additional repair items to deal with over the coming years that will bring the costs up to levels similar (in current dollar terms) to those involved in the full model. The difference will be how much inflation will come into play, how many times the occupancy is disrupted, and the duration of such disruptions.

Option 2 – Full Renovation*

This option goes beyond the repairs and renovations listed above to include all building systems (mechanical, electrical and plumbing), as well as energy efficiency upgrades (insulation, windows, etc.), roofing, and bringing the building up to, or near, existing building code. The exterior would also be refreshed for a better branding and aesthetic appeal, as well as the interior, which could potentially be reconfigured for better efficiency. Lastly, the board meeting room could be upgraded to a state-of-the-art facility with improved electronics and telecommunications capabilities.

As these renovations will be needed eventually, and considering the magnitude of the disruptions to occupancy, we believe it will be worth doing at one time while the building is empty. And rather than doing it piecemeal, the full renovation should last multiple decades (maintenance will still be needed of course but not wholesale replacements or renovations).

Option 3 – Redevelop in Kind

Option 3 shows the estimated cost that would be associated with demolishing the existing building and replicating it with a newly built structure of similar form but with modern systems and functionality. Given the substantially higher cost, and considering the irregular (inefficient) layout, this is not considered a practical option to pursue.

Option 4 – Redevelop for TAO solely*

Option 4 represents the scenario wherein the existing building would be demolished and replaced with a new building housing only the TAO and the board meeting room. For the purpose of a quick comparison, we have estimated such a building would comprise approximately 10,000 square feet. The benefit of this scenario is a lower overall cost which still provides a state-of-the-art facility with a long, multi-decade lifespan.

Option 5 – Redevelop for TAO & TLO

Option 5 is a scenario wherein the existing building would be demolished and replaced with a new building housing the TAO, TLO and the board meeting room. Again, for the purpose of quick comparison, the building size estimated for this scenario is approximately 18,000 square feet. In addition to having a state-of-the-art facility with a multi-decade lifespan, the benefit of this scenario is the ability to house the Trust, in its entirety, under one roof.

Option 6 – Buy Alternative Building

Option 6 involves the costs estimated to buy an alternative building for the TAO to relocate to. Relying on the 10,000-square foot estimate, we have estimated the cost at roughly \$5.5mm based on a purchase price of approximately \$200 per square foot plus renovation costs and tenant improvements estimated at \$300 per square foot. Note that the renovation and tenant improvement could range from \$200 per square foot up to \$400 per square foot, providing a total cost range of \$4.4mm to \$6.6mm.

This option would provide a good building with a reasonably long lifespan. But stating the obvious, the building would be inferior to/less ideal than a newly constructed facility.

Option 7 – Lease Alternative Space

Opposed to buying an alternative building, Option 7 involves the estimated costs of leasing an alternative building for the TAO. Relying again on the 10,000-square foot estimate, we have estimated the cost at approximately \$300,000 per year. Of course, this figure would most likely escalate annually. Assuming, say, 3% annual escalations, the rent over 30 years would work out to \$14.3mm. Those would be future dollars as opposed to present value dollars (a discounted value would be something in the neighborhood of half the cumulative amount, however, there would not be the residual value at the end that would be achieved under the ownership scenarios either).

Option 8 – Vacate ASD & delay Decision

This option reflects the scenario of delaying further the decision to renovate, which implies not spending any funds to renovate the building at present. Under this scenario, we would not be able to guarantee that we would provide ASD a functional space complete with operating building systems. As the building systems may fail, we would not want to lease the space to ASD, thereby obligating ourselves to ensure such. Likewise, ASD would not want to lease a space without guarantees of such.

So, while no renovation costs would be incurred under this scenario, all tenant revenues will be lost.

Trust Land Office Recommendation: The TLO recommends proceeding with Option 2 – Full Renovation. And subsequent to that, recommends Option 1 and Option 4.

Applicable Authority: AS 37.14.009(a), AS 38.05.801, 20 AAC 40.710-720 and 11 AAC 99.

Trust Authority Approval: The motion presented in this briefing document fulfills the approval requirements that are applicable to the transaction.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted October 2021 in consultation with the Trust and provides for assuring that the real estate needs of mental health programs sponsored by the Alaska Mental Health Trust Authority are met as appropriate. In addition, 11 AAC 99.020(c)(3) cites protection and enhancement of the long-term productivity of Trust land.