



City and Borough of Juneau
City & Borough Manager's Office
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TO: Deputy Mayor Hale and Committee of the Whole
FROM: Katie Koester, City Manager
DATE: August 5, 2024
RE: Downtown City Employee Office Space

Downtown CBJ employees have been playing musical chairs with workspace since partially vacating Muni Way due to it being sold in early 2023. Since then, the building has been under construction and further vacated. To summarize, in the short term (1-year), IT and the non-public facing Finance employees are moving to Marie Drake. Human Resources and the rest of Finance are consolidating in City Hall. However, the purpose of this memo is to address long-term downtown CBJ office space.

After a second failed attempt to secure bond approval for a purpose built City Hall, the Assembly directed staff to negotiate to lease the Burns building, a large downtown office building with sufficient space for most downtown employees.¹ This authority was granted with the understanding that a public process regarding Marie Drake and Floyd Dryden needs to be complete before the Assembly is willing to take repurposing a school completely off the table. That process is ongoing and an earlier agenda topic tonight. A request for information reflected significant interest in Floyd Dryden, less in Marie Drake. Aside from being a 50-year-old building in need of major maintenance, Marie Drake has limited parking (45 spots) and it has proven impossible to provide parking for 165 employees without incurring significant cost.

Since the [April 15 COW](#), Land Manager Bleidorn and I have engaged with the real estate holding company for the Permanent Fund Corporation (PFC). They have offered \$2.85 a square foot, excluding significant tenant improvements, to lease 2 floors of the building. This is within range for office space. As a frame of reference, we are paying \$2.27 per square foot at Marine View and \$2.84 at Sealaska. However, this does not include tenant improvements, which we estimate range from \$3.5-5.25M depending on final layout and design.

During the course of negotiations, the idea of forming a condo association and CBJ purchasing the bottom two floors with the PFC maintaining ownership of the top floor, was introduced. The rough order of magnitude for 2 floors of the Burns building is \$12M. I think this is high; the assessed value for the entire property is \$8.9M – which means our assessor is undervaluing the property by 50% of the asking price. In 2021 the property was valued at \$10.67M and the owner appealed resulting in a modest devaluation based on location. The assessed value has only decreased since then. CBJ 53.04.020 requires the Manager to acquire property at a price that does not exceed fair market value. Fair market

value will be very difficult to determine in this instance with the lack of comparable properties.

We have \$14.5M in available funds between New City Hall and City Hall CIPs. One-million dollars was transferred out of the fund during the FY25 budget process to fund the elevator at Diamond Park Field House. Funds have also been encumbered for cubicles and modular furniture at Marie Drake which will be transferred to the Burns building. With the recommended tenant improvements and estimated legal fees for establishing a condo association, this puts the total project cost at \$17.5M.

Lease Versus Own

The table belowⁱⁱ shows the total cost of leasing versus owning over 10 years. In summary, after paying rent for 10 years, we would be within \$1M of owning the building. Assumptions include significant maintenance and operations of \$650,000 a year. However, we would be the majority owner and much of those funds would be put back into upkeep of the building. This means at the end of 10 years we would have a well taken care of building which greatly extends the service life of our investment.

Recommendation: Direct the Manager to proceed with negotiations to purchase the Burns building and to hire a mutually agreed upon appraiser to value the building as a business condo.

ⁱ Combined with the JSD admin building that has 17 workstations one block away, we would have enough space to host all ~165 downtown CBJ employees.

ⁱⁱ

Rent Costs				Owning Costs			
Total square footage:		48,145		One Time Purchase Price		\$12,000,000	
		Remodel Costs \$ 5,250,000		Cost to create Business Condo Association:		\$250,000	
Annual Lease Rate includes 3% annual escalation:				Remodel Costs: \$ 5,250,000			
year		1	\$ 2.85	\$ 1,646,559	year	1	\$ 650,000
		2	\$ 2.94	\$ 1,695,956	Annual Maintenance, operating and capital costs includes 3% annual escalation :	2	\$ 669,500
		3	\$ 3.02	\$ 1,746,834		3	\$ 689,585
		4	\$ 3.11	\$ 1,799,239		4	\$ 710,273
		5	\$ 3.21	\$ 1,853,217		5	\$ 731,581
		6	\$ 3.30	\$ 1,908,813		6	\$ 753,528
		7	\$ 3.40	\$ 1,966,078		7	\$ 776,134
		8	\$ 3.51	\$ 2,025,060		8	\$ 799,418
		9	\$ 3.61	\$ 2,085,812		9	\$ 823,401
		10	\$ 3.72	\$ 2,148,386		10	\$ 848,103
Total after 10 years:				\$ 24,125,954	Total after 10 years:		\$ 24,951,522
Based on CBJ's % interest of ownership, 66% of the total operating expenses would bring the annual cost to CBJ to roughly \$650,000.							