

# **Economic Impact of the Juneau Support Office Project**



Jensen Yorba Lott Drawing of Proposed Building

*April 2009*



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# Project Background

The Alaska Mental Health Trust Authority (AMHTA) is proposing to construct a \$45 million, four-story 136,000 square foot Subport Office Building in downtown Juneau to house 525 state employees who currently work in buildings that are owned or leased by the State. Construction would take place between June 2010 and May 2012, with building leases starting in June of 2012. The Subport Office Building would provide 102,000 square feet of office space to the State to replace the following facilities:

## Department of Labor Building

The 68,000 square foot Department of Labor Building—also referred to as the “Plywood Palace”—is leased by the State and currently accommodates 304 State employees. The 30-year lease will expire in 2012. According to a Department of Administration Briefing paper:

Since 1982, the DOL occupants have experience water intrusion, flooding, mold growth, roof leaks, ponding in the parking lot, windows falling out, carpenter ants, etc. Numerous employees have become ill, grievances have been filed by unions and a number of employees have been moved to alternate space outside the facility due to these conditions. An alternate facility...is necessary.”

According to Vern Jones, Chief Procurement Officer for the State of Alaska, the state is unlikely to renew a lease for that property and “there is no vacant space existing in Juneau at the moment.”

## Douglas Island Building

Built in 1961, the 32,000 square foot Douglas Island Building currently accommodates 187 Department of Fish & Game and Department of Corrections employees. The building, however, is “in dire need of major capital improvements including complete replacement of the building envelope to eliminate and prevent rain, wind and snow from entering the building.” Expected renovation and other deferred maintenance cost would be \$5.8 million. Jones further notes that the state is “very reluctant to invest millions of dollars in these old buildings.” The State prefers to vacate the building and either demolish the facility, or find an alternative use.

## Public Safety Building

The 16,000 square foot Public Safety Building was built in 1970 as a “temporary structure” with replacement plans for 1980. The building accommodates 34 state employees. The facility currently requires “major electrical upgrades, code compliance improvement, a new roof, and other repairs,” at an expected cost of \$2.5 million. Should plans move forward with the Subport Office Building, the Public Safety Building would likely be demolished to make space for a 360 vehicle-parking garage to support the new building.

## Project Costs

The total cost of the Juneau Subport Office Project is expected to be \$45.3 million, including \$36.9 million for construction costs. The following table contains cost elements:

### Total Juneau Subport Office Project Costs

Cost Category	Cost
<b>Construction Costs</b>	<b>\$36,940,750</b>
Materials*	\$22,164,450
Labor	\$14,776,300
<b>1% for Arts</b>	<b>\$369,407</b>
<b>Due Diligence</b>	<b>\$231,310</b>
<b>Architectural, permitting, design, management and equipping building.</b>	<b>\$5,356,902</b>
<b>Construction Financing</b>	<b>\$2,413,033</b>
<b>Total Costs</b>	<b>\$45,311,404</b>

\*According to Jensen Yorba Lott, a local architecture firm, materials are expected to account for 60% of "hard" construction costs, and labor will account for 40%.

## Portion to be Spent in Juneau

- Approximately \$3.5 million of construction materials are expected to be purchased directly in Juneau.
- Approximately \$4 million of the \$5.4 million in architectural, permitting, design, management, and building equipping is expected to be spent directly in Juneau.

## Savings to the State of Alaska

According to the fiscal note for the Act relating to the Alaska Mental Health Trust Authority Subport (SB157), the State of Alaska is expected to realize a savings of \$13.5 million over the 30-year Juneau Subport Office lease period. The document notes that this amount excludes the deferred maintenance costs past 2012 and the likely replacement for the Douglas Island Building and the Public Safety Building, so total savings could be substantially higher.

# Calculating Juneau Economic Impacts

The total economic impact of the Juneau Support Office Project on the Juneau economy is likely to be \$31.3 million over the two-year duration of the construction phase. The jobs created during the construction phase are expected to pay \$18.6 million in local wages. The project is expected to create 180 full time jobs in Juneau for each year of the expected two-year construction process, including 100 direct jobs, and 80 indirect and induced jobs. Generally, these will be high paying jobs. The average annual project wage will be 27 percent higher than the average annual Juneau wage.

## Economic Impact of the Juneau Support Office Project During Two-Year Construction Phase

Cost Category	Direct Effects	Secondary Effects (Indirect and Induced)	Total Effects
<b>Employment Impact</b> (Full Time Equivalent Annual Jobs)	<b>100 jobs/year</b>	<b>80 jobs/year</b>	<b>180 jobs/year</b>
<b>Total Wages Impact</b> (24 months)	<b>\$12.4 million</b>	<b>\$6.2 million</b>	<b>\$18.6 million</b>
<b>Additional Local Spending Impact</b> (Goods and services)	<b>\$5.9 million</b>	<b>\$3 million</b>	<b>\$8.9 million</b>
<b>Additional Overhead Expenditures</b>	<b>\$2.5 million</b>	<b>\$1.3 million</b>	<b>\$3.8 million</b>
<b>Total Economic Impact of Funds Directly Spent in Juneau</b>	<b>\$20.8 million</b>	<b>\$10.5 million</b>	<b>\$31.3 million</b>

Economic impact analysis distinguishes between three different types of impact: direct, indirect, and induced impacts. Direct economic impact refers to the initial expenditures by the Juneau Support Office Project construction, including the construction costs for material and labor, along with architectural, permitting, design, management, and building equipping costs. Indirect impacts result when the contractors rent or purchase goods and services from other producers in the local economy. Induced impacts result when households receiving income from the Support Office Project increase local spending. Indirect and induced impacts are estimated using econometric model multipliers for Alaska and Juneau (generally 1.8 for employment and 1.5 for income - a conservative multiplier of 1.5 for additional expenditures was used as well). The magnitude of the multipliers depends on the proportion of local spending and the types of goods and services purchased locally, the average salary of employees (which reflects the purchasing power of employees), and the residency of those employees.<sup>1</sup>

<sup>1</sup> Southeast Strategies

## Construction Workforce and Spending

The average construction wage for Juneau—according to the Alaska Department of Labor 2007 statistics—was \$60,490. The construction period is expected to last 23 to 24 months (late June 2010 through mid-May 2012). Using a benefit overhead factor of 1.4 (commonly used for construction projects such as this) there will be 91 Full Time Equivalent (FTE) jobs created during the construction period. These estimates mirror the labor force actuals on the recent Juneau High School project. The project was somewhat similar in scope—a 166,400sq. ft. building estimated to cost \$48 million—and, according to Coogan Construction, employed 100 FTE construction workers on an annual basis.<sup>2</sup>

According to Wayne Jensen, architect for Jensen Yorba Lott, 80 percent of construction jobs for this project are expected to be Alaska residents. Using to Alaska Department of Labor nonresident data for the Juneau construction sector, it is expected that an additional 10 percent of the workforce will be an Alaska resident who is not a Juneau resident. So for the 91 jobs created, 63 (70 percent) will be held by Juneau residents, 18 (20 percent) will be held by non-Alaska residents, and 9 (10 percent) will be held by non-Juneau Alaska residents.<sup>3</sup> Of course, these non-residents will be living and working in Juneau during the construction processes, so a large portion of their earned income would be expected to remain in Juneau.

### Direct Annual Income and Jobs

#### **Total Direct Construction Jobs (annually) = 91 jobs (2 years = 182 jobs)**

- Jobs to Juneau residents = 63 jobs (2 years = 126 jobs)
- Jobs to non-Juneau Alaska residents = 9 jobs (2 years = 18 jobs)
- Jobs to non Alaska residents = 18 jobs (2 years = 36 jobs)

#### **Total Direct Annual Construction Income = \$5.5 million (2 years = \$11 million)**

- Income to Juneau residents = \$3.8 million (2 years = \$7.7 million)
- Income to non-Juneau Alaska residents = \$0.6 million (2 years = \$1.2 million)
- Income to non Alaska residents = \$1.1 million (2 years = \$2.2 million)

#### **Additional Administrative and Overhead Expenditures = \$0.9 million (2 years = \$1.8 million)**

### Total Direct and Indirect Annual Income and Jobs

- Total direct and indirect annual jobs = 164 annual jobs in Juneau (2 years = 328 jobs).
- Total direct and indirect income = \$8.25 million in annual local wages (2 years = \$16.5 million)
- Total direct and indirect annual overhead expenditures = \$1.75 million (2 years = \$3.5 million)

<sup>2</sup> Total costs of that building ended up being higher than initial estimates.

<sup>3</sup> These estimates coincide almost exactly with the actual experience of Coogan Construction on the recently completed Juneau High School Project. Construction labor for that project was 70 to 75 percent local residents. Non-residents hired for that project were specialty iron and glass workers who could not be found in Juneau, and came from Anchorage or the lower-48.

## Architecture, Design and Permitting Workforce and Spending

Approximately \$4 million of the \$5.4 million in architectural, permitting, design, management, and building equipping is expected to be spent directly in Juneau. Half (\$2,000,000) of this amount will be spent on labor. The average wage for architecture design and permitting component of this project—according to Jensen Yorba Lott—is expected to be \$80,000 annually. As noted, the construction period is expected to last 24 months. Using a benefit overhead factor there will be 9 FTE jobs created in this category during the construction period.

## Direct Annual Income and Jobs

**Total Direct Architecture, Design and Permitting Jobs = 9 jobs (2 years = 18 jobs)**

- Jobs to Juneau residents = 7 jobs (2 years = 14 jobs)
- Jobs to non-Juneau Alaska residents = 1 job (2 years = 2 jobs)
- Jobs to non Alaska residents = 1 job (2 years = 2 jobs)

**Total Direct Annual Income = \$0.7 million (2 years = \$1.4 million)**

**Additional Administrative and Overhead Expenditures = \$0.35 million (2 years = \$0.7 million)**

## Total Direct and Indirect Annual Income and Jobs

- Total direct and indirect annual jobs = 16 jobs (2 years = 32 jobs)
- Total direct and indirect income = \$1.1 million (2 years = \$2.2 million)
- Total direct and indirect overhead expenditures = \$.65 million (2 years = \$1.3 million)

## Economic Impacts of Direct Expenditures

In addition to direct payroll expenditures, the Juneau Support Project will spend an additional \$5.9 million in Juneau on goods and services. The effect of the direct spending will, in turn, create an additional \$3 million in local spending, for a net effect of \$8.9 million over the two-year construction duration.

### Materials

The Mental Health Trust expects to spend \$22.2 million on material for the construction of the Juneau Support Office Project, including \$3.5 million in local material purchases. Many local businesses and organizations will benefit from this spending. In addition, many other businesses in the support sector benefit from the multiplier effects of this spending.

### Other

Approximately \$2 million of the \$5.4 million allotted for architectural, permitting, design, management, and equipping costs is expected to be spent on local goods and services, along with a portion of the one percent for the arts expenditures.

## Property Tax Implications

JEDC does not expect significant changes in CBJ property taxes due to utilization of a new Subport Office Building. Details are below:

### **Estimated Property Tax Summary: Implications of the Subport Office Building on CBJ Property Tax Revenue**

<b>Property</b>	<b>2009 Annual Property Tax</b>	<b>Estimates Property Tax if Subport Office Building Constructed</b>
<b>Subport Office Building</b> (excluding retail space)	<b>\$0</b>	<b>\$0</b>
<b>Subport Office Building Retail Space</b>	<b>na</b>	<b>\$2,600 - \$11,000</b>
<b>Public Safety Building</b>	<b>\$0</b>	<b>\$0</b>
<b>Douglas Island Building</b>	<b>\$0</b>	<b>\$0 - \$65,000</b>
<b>Department of Labor Building</b>	<b>\$104,000</b>	<b>\$74,000 - \$104,000</b>
<b>Total</b>	<b>\$104,000</b>	<b>\$76,600 - \$180,000</b>

### Subport Office Building

Properties owed by the State of Alaska are exempt from property tax in Juneau. Although the Mental Health Trust Lands and properties are managed separately from other State of Alaska assets, the Mental Health Trust sub port lots are also tax exempt. Because the planned Juneau Subport Office Project will be leased to the State of Alaska for use, those portions of the building will remain tax-exempt as well.

### Subport Office Building: Retail Space

The Subport Office Building will have 7,300 square feet of retail space on its ground floor to rent to a for profit organization, "most likely a restaurant." Because that space will not be used by the state (in which case the property would remain tax exempt) the value of that portion of the building will then become taxable. The property value of that space and lease will be evaluated by the Juneau assessors office using one of two scenarios:



1) **Non-Parcel Number**—The retail property would be valued separately from the building and given a “non-Parcel” number and value. (This method was used for the Associated Press’s rental of the “Spam Can” building several years ago.)

2) **Possessory Interest**—The building would be valued as a whole, and the portion of the building used for retail purposes would be valued as Possessory Interest. (This method is currently used for TEMSCO Helicopter’s airport rental.) The value of the lease depreciates over the lease period.

While the actual property value of the retail component of the building cannot be determined until the building has been completed, the Juneau Assessors office calculated likely Possessory Interest valuations based on a five-year lease. These estimates, along with likely property tax fees for the retail space, are below:

**Juneau Subport Office Building Retail Space  
Possessory Interest Value and Property Tax**

Year of Lease (5 Year Lease)	Retail Space Possessory Interest Property Value	Property Tax
2013 - Year 1 of Lease	\$1,047,000	\$11,000
2014 - Year 2 of Lease	\$875,500	\$9,000
2015 - Year 3 of Lease	\$686,800	\$7,000
2016 - Year 4 of Lease	\$479,300	\$5,000
2017 - Year 5 of Lease	\$251,100	\$2,600

**Douglas Island Building**

The state owned Douglas Island Building is currently exempt from paying property tax. Future plans for the building are unknown. Should the state continue to use the building to house State workers, the building will remain tax-exempt.

If the State rents the property to a tax eligible organization, that new tenant would be required to pay property tax on the portion of the property rented by that group (see Possessory Interest above). The State might also choose to demolish the Douglas Island Building, and construct a new building, which would have a higher property value, and increase the property tax rate for a potential renter. Future annual property taxes might reasonably range between \$0 and \$65,000 given these scenarios.

**Public Safety Building**

The state owned Public Safety Building is also currently tax-exempt. Should the state continue to use the building to house State workers, that building will also remain tax-exempt. If the Juneau

Subport Office is built, the Public Safety Building would likely be demolished to construct a 360 vehicle-parking garage for State workers, and therefore remain tax exempt.

### **Department of Labor Building**

The “Department of Labor” building or “Plywood Place” is owned by an Alaska based LLC that does pay tax on the property. According the Juneau City Assessor, the property (land and building) is valued at \$10.1 million, which—with a 10.37 millage rate—generates \$104,000 annually in taxes. The State is in year 27 of its 30-year lease for this property, and is very unlikely to renew a lease at this site regardless of construction of the new Subport Office Building.

If the anchor tenant for the lessor leaves the property, the value of the property could decrease. If the building owner is not able find a replacement tenant, and the building sits vacant for a length of time, the owner could apply for an income valuation to be conducted by the City Assessor’s office. Valuation is based on January 1 value, and the State plans to rent the property through May of 2012, so the building would have to sit empty through January of 2013 to be eligible. It is unknown the extend to which the property tax would decrease given this scenario; however, given the lack of office space in Juneau, JEDC estimates a maximum decrease of no more than \$30,000 annually.

## Other CBJ Fees and Taxes

### **Sales Tax**

The sales tax collected during construction of the building would be minor, and mostly associated with wage expenditures of building workers. Under CBJ ordinance 69.05.040(05), construction services and construction materials “incorporated in a site when purchaser has a current building permit and holds a current CBJ builder sales tax exemption card” are tax exempt.

### **Permitting Fees**

According to Wayne Jensen, of Jensen Yorba Lott, the CBJ permitting fees associated with the building are expected to be approximately \$150,000.

## Other Impacts

Moving 187 State employees from the Douglas Island Building to downtown Juneau will decrease lunch revenue for the two nearby restaurants in the Douglas area; however, this will be a localized effect and equal or greater revenue increases will be experienced by downtown Juneau establishments.

A difficult to quantify, but real impact, will be realized by concentrating three currently separate State facilities into one building, and bringing more than 500 State workers closer to other state

office facilities in downtown Juneau. The new Juneau Transit Center will be completed in time to serve the new building, and will make it easier for these State workers to use public transportation to get to work, as well as providing critical increased parking as more State workers concentrate in the downtown area. The State workers will also be closer to legislators and other government officials during legislative session. Perhaps the biggest impact of this project is that it will replace aging infrastructure and provide modern office space for 12 percent of Juneau's State workforce.