

MINUTES
SENATE STATE AFFAIRS COMMITTEE

DATE: Thursday, March 23, 2017

TIME: 1:00 P.M.

PLACE: Room WW55

MEMBERS PRESENT: Chairman Siddoway, Vice Chairman Hagedorn, Senators Davis, Hill, Winder, Lodge, Lakey, Stennett, and Buckner-Webb

ABSENT/ EXCUSED: None

NOTE: The sign-in sheet, testimonies and other related materials will be retained with the minutes in the committee's office until the end of the session and will then be located on file with the minutes in the Legislative Services Library.

CONVENED: **Chairman Siddoway** called the meeting of the Senate State Affairs Committee (Committee) to order at 1:00 p.m.

HCR 29 **A House Concurrent Resolution authorizing the Department of Administration to finance the acquisition of a complex to house State agencies.**

Robert Geddes, Director, Department of Administration, presented **HCR 29**. **Director Geddes** stated that work began in 2016 to secure the lease and/or purchase of Washington Group Plaza for the Idaho State Tax Commission (Commission), whose current lease expires June 30, 2017. He indicated, however, that the Department of Administration was later notified that Washington Group Plaza was being purchased by another entity. Subsequently, the Division of Public Works issued a Request for Proposal (RFP) and received 46 responses for potential locations for lease or purchase; Hewlett-Packard (HP) was one of the respondents offering space for lease on their complex. The decision was made to purchase the HP complex and **HCR 29** closely mirrors the agreement to the terms and conditions set forth in the signed letter of intent. **Director Geddes** indicated that further negotiations may not continue without legislative authority to bond for the purchase amount of \$110 million and \$16 million for additional renovations. He reported that the State currently leases approximately 800,000 square feet of office space which costs \$12.2 million annually. **Director Geddes** pointed out there are significant benefits to the purchase of the HP complex, which include logistical improvements and costs savings of housing multiple agencies in one location.

Senator Stennett asked the size of the HP complex. **Director Geddes** replied that the complex constitutes 1.346 million square feet of office space and 200,000 square feet of warehouse space on 200 acres. **Senator Stennett** sought clarification regarding the fiscal note. **Director Geddes** responded that because HP will lease back their current portion of office space, the resulting revenue will allow the bonding payment obligations to be met. The Commission will be the first agency to transition to the HP complex; other agencies will follow as their leases expire, such as the Department of Finance, Public Utilities Commission, and the Industrial Commission.

Senator Hill expressed concerns regarding the tax-exempt status of this property and the resulting tax shift to others in the taxing district. He referenced language pertaining to the removal of property from budget capacity and questioned the legality and functionality of the term "should." **Director Geddes** asked Keith Reynolds, Deputy Director and Chief Financial Officer, Department of Administration, to respond. **Mr. Reynolds** stated that the term "should" is meant

to encourage but not require taxing districts to remove the property from their budget capacity.

Senator Lodge asked if the Idaho Department of Health and Welfare has the option to move to the HP complex. **Director Geddes** affirmed, explaining that space will continue to become available in the HP complex for other state agencies.

Pursuant to Senate Rule 39(H), **Senator Winder** disclosed a possible conflict of interest.

Senator Winder asked Director Geddes to comment on the physical condition of the property and potential maintenance issues. **Director Geddes** responded that thorough examination of the property has not yet been conducted; once funding authority is approved, the letter of intent provides 45 days to conduct due diligence in this regard. He felt the property was in good condition and indicated that according to the current owner, most asbestos has already been mitigated.

Senator Winder stated that certain types of manufacturing may result in heavy metal discharge and should be considered during inspection of the property.

Director Geddes responded that they would include this in their inspection. He further noted that the property will be purchased by the Idaho State Building Authority, and working in conjunction with the Department of Administration, will ensure that due diligence requirements are fulfilled.

Senator Hagedorn asked if it will become the practice of the Department of Administration to relocate agencies to the HP complex as their leases expire.

Director Geddes replied that the central location for state agencies remains the Capitol Mall complex; however, there may be financial incentives for agencies to relocate to the HP complex and there is already interest from certain agencies to do so.

Director Geddes asked Wayne Mueleman, Executive Director, State Building Authority, to speak to bonding procedures in this regard. **Mr. Mueleman** explained that the State Building Authority will participate in the due diligence process and disclose those transactions to bond holders. He specified that bonds will be issued in amounts sufficient to pay the \$110 million purchase price and \$16 million for renovations, as well as any additional funding needs resulting from the due diligence process. **Mr. Mueleman** stated that the transaction is a lease agreement between the State Building Authority and the Department of Administration; this arrangement provides for the Department of Administration to maintain full control and management of the facility.

Senator Hill asked Mr. Mueleman to explain the leasing mechanism and the coordination of State agencies as referenced in **H 315**. **Mr. Mueleman** stated that **HCR 29** authorizes the Department of Administration to enter into agreements with the State Building Authority so that they may finance and acquire the facility; these types of agreements require authorization via concurrent resolution. When bond obligations are met, the State Building Authority transfers the deed to the State.

Senator Hagedorn sought clarification regarding the bond repayment period. **Mr. Mueleman** estimated a 30 year principal payback period and explained the goal is to maintain consistent payments by optimizing the term length with interest rates.

Chairman Siddoway asked if subsequent issues arise after due diligence is completed, is there opportunity to adjust the contract accordingly. **Mr. Mueleman** stated that the current letter of intent provides 45 days to enter into a purchase and sales agreement; the State Building Authority has the flexibility to provide additional funds if necessary.

Senator Hagedorn asked if all State agencies are required to work through the State Building Authority in this regard. **Mr. Mueleman** responded that the only bond issuing authority for State agencies is through the State Building Authority.

MOTION: **Senator Hill** moved to send **HCR 29** to the floor with a **do pass** recommendation. **Vice Chairman Hagedorn** seconded the motion. The motion carried by **voice vote**.

H 315 **Relating to the Facilities for State Use to provide that the Department of Administration authorize leases incidental to the acquisition of a facility.**

Director Geddes presented **H 315**, which amends Idaho Code § 67-5708 to allow the Director of the Department of Administration to authorize the Division of Public Works to enter into leases incidental to the acquisition of such a facility by the Idaho State Building Authority. **Director Geddes** stated that this will allow the Department of Administration to receive rent payments from current and future tenants.

Senator Hagedorn asked if **HCR 29** and **H 315** would allow for the purchase of a different property within the 45 day due diligence period. **Director Geddes** asked Mr. Reynolds to respond. **Mr. Reynolds** replied that **HCR 29** specifically identifies the HP property. **Senator Hagedorn** asked if such specificity is a limiting factor. **Mr. Reynolds** responded that the legislation was purposefully written in such a way to create parameters for the current proposal.

MOTION: **Senator Hill** moved to send **H 315** to the floor with a **do pass** recommendation. **Senator Lodge** seconded the motion. The motion carried by **voice vote**.

H 307 **Relating to the Administrative Rules to continue certain rules in full force and effect.**

Dennis Stevenson, Administrative Rules Coordinator, presented **H 307**, which continues certain administrative rules in full force and effect until July 1, 2018. **Mr. Stevenson** explained that this legislation is required to extend all previously extended rules that will expire July 1.

MOTION: **Senator Lodge** moved to send **H 307** to the floor with a **do pass** recommendation. **Vice Chairman Hagedorn** seconded the motion. The motion carried by **voice vote**.

MINUTES APPROVAL: **Senator Lakey** moved to approve the minutes of February 24 and March 6, 2017. **Vice Chairman Hagedorn** seconded the motion. The motion carried by **voice vote**.

Senator Hill moved to approve the minutes of February 10 and March 15, 2017. **Senator Lodge** seconded the motion. The motion carried by **voice vote**.

Vice Chairman Hagedorn moved to approve the minutes of March 8 and March 22, 2017. **Senator Lodge** seconded the motion. The motion carried by **voice vote**.

Senator Winder moved to approve the minutes of March 1, 2017. **Senator Lodge** seconded the motion. The motion carried by **voice vote**.

ADJOURNED: There being no further business at this time, **Chairman Siddoway** adjourned the meeting at 1:45 p.m.

Senator Hagedorn
Vice Chair

Twyla Melton, Secretary

Jennifer Carr, Assistant Secretary