

Date: February 7, 2018

To: Michael Abbott, CEO, Alaska Mental Health Trust Authority

From: Katie Berry, Economist,
Jim Calvin and Susan Bell, Principals

RE: Financial Analysis Concerning Subport Parcel C-1

This memo summarizes the results of an analysis (prepared at the request of Doug Trucano) comparing the financial return to the Trust from the sale of the Subport – C1 parcel with the financial return from a lease of that same property.

From our economic development planning work for CBJ, it is evident that development of C1 and surrounding area has strong potential to enhance Juneau’s waterfront and stimulate economic development. We also recognize the Trust’s obligation to maximize income for the benefit of Trustees.

This analysis uses a standard discounted cash flow method to calculate the present value of future lease payments for the lease of Subport C-1. The following assumptions are important to this evaluation:

- All proceeds from either the sale or lease of parcel Subport C-1 deposited in MHTA’s endowment fund generate an expected annual return of 7.22 percent including expected inflation of 2.22 percent.
- The future value of fund principal and earnings are discounted at an annual rate of 6 percent in accordance with the State of Alaska’s present value analysis.¹

Results

Selling parcel Subport C-1 generates more revenue to fund MHTA programs compared to leasing the parcel annually and over a 20-year horizon. Selling the parcel at \$3.24 million and investing the proceeds in MHTA’s endowment fund is expected to generate \$220,687 (2018 dollars) in earnings in the first year following sale, more than double the anticipated yearly lease payment of \$83,374. The gap in potential earnings from selling Subport C-1 compared to leasing the parcel is expected to widen over a 20-year horizon, with potential fund earnings of \$274,287 in year 20 compared to an anticipated yearly lease payment with a present value of \$30,977.

¹ State of Alaska, Department of Administration, Shared Services of Alaska Leasing and Facilities Section. Request for Proposal 2018-0200-3879. December 22, 2017.

Over 20 years, expected earnings from investment of sale proceeds from Subport C-1 exceed expected yearly lease payments by almost \$4.0 million, in 2018 dollars.

Expected Present Value of Land Lease Compared to Land Sale (2018 USD)			
Year	PV of Expected Yearly Lease Payments	PV Expected Earnings from Sale	Difference of Lease Payments to Sale Earnings
1	\$83,374	\$220,687	+ \$137,313
2	\$79,141	\$223,227	+ \$144,086
3	\$75,122	\$225,796	+ \$150,674
4	\$71,308	\$228,395	+ \$157,087
5	\$67,687	\$231,023	+ \$163,336
6	\$64,250	\$233,682	+ \$169,432
7	\$60,988	\$236,372	+ \$175,384
8	\$57,891	\$239,092	+ \$181,201
9	\$54,952	\$241,844	+ \$186,893
10	\$52,161	\$244,628	+ \$192,466
11	\$49,513	\$247,443	+ \$197,931
12	\$46,999	\$250,291	+ \$203,293
13	\$44,612	\$253,172	+ \$208,560
14	\$42,347	\$256,086	+ \$213,739
15	\$40,197	\$259,033	+ \$218,836
16	\$38,156	\$262,015	+ \$223,859
17	\$36,218	\$265,030	+ \$228,812
18	\$34,379	\$268,081	+ \$233,701
19	\$32,634	\$271,166	+ \$238,532
20	\$30,977	\$274,287	+ \$243,310
Total	\$1,062,905	\$4,931,350	+ \$3,868,446

Source: McDowell Group Calculations

If MHTA invested all yearly lease revenue in the endowment fund, total lease revenue including fund earnings would remain lower than the potential earnings from selling Subport C-1 over 20 years. Depositing lease payments into the fund would earn an expected \$77,898 (2018 dollars) by year 20, compared to expected year 20 fund earnings of \$274,287 from selling the parcel. During the 20-year period, lease payments and expected earnings from investing lease payments never outweigh the expected earnings from land sale. Including potential earnings from investment of lease payments, expected earnings from investment of sale proceeds continue to exceed total lease revenue by a cumulative \$3.0 million over 20 years, as measured in 2018 dollars.

Expected Total Revenue from Land Lease Compared to Land Sale (2018 USD)

Year	Lease Revenue			Sale Revenue	
	PV of Expected Yearly Lease Payments	PV of Expected Earnings from Lease Payments	PV of Total Lease Revenue	PV of Expected Earnings from Sale	Difference of Total Lease Revenue to Sale Earnings
1	\$83,374	-	\$83,374	\$220,687	+ \$137,313
2	\$79,141	\$5,506	\$84,646	\$223,227	+ \$138,581
3	\$75,122	\$10,803	\$85,925	\$225,796	+ \$139,871
4	\$71,308	\$15,904	\$87,212	\$228,395	+ \$141,183
5	\$67,687	\$20,818	\$88,505	\$231,023	+ \$142,518
6	\$64,250	\$25,556	\$89,806	\$233,682	+ \$143,876
7	\$60,988	\$30,127	\$91,114	\$236,372	+ \$145,258
8	\$57,891	\$34,539	\$92,430	\$239,092	+ \$146,662
9	\$54,952	\$38,802	\$93,753	\$241,844	+ \$148,091
10	\$52,161	\$42,923	\$95,085	\$244,628	+ \$149,543
11	\$49,513	\$46,911	\$96,424	\$247,443	+ \$151,019
12	\$46,999	\$50,773	\$97,772	\$250,291	+ \$152,520
13	\$44,612	\$54,515	\$99,128	\$253,172	+ \$154,044
14	\$42,347	\$58,145	\$100,492	\$256,086	+ \$155,594
15	\$40,197	\$61,669	\$101,866	\$259,033	+ \$157,167
16	\$38,156	\$65,093	\$103,248	\$262,015	+ \$158,766
17	\$36,218	\$68,422	\$104,640	\$265,030	+ \$160,390
18	\$34,379	\$71,662	\$106,042	\$268,081	+ \$162,039
19	\$32,634	\$74,819	\$107,453	\$271,166	+ \$163,713
20	\$30,977	\$77,898	\$108,874	\$274,287	+ \$165,413
Total	\$1,062,905	\$854,885	\$1,917,790	\$4,931,350	+ \$3,013,560

Source: McDowell Group Calculations

This analysis compares the financial return from sale of parcel C-1 with lease of a portion of the parcel for parking. A full accounting of all future costs and revenues associated with AMHTA ownership of the parcel would also include costs to improve the property to make it parking-ready, as well as the cost of on-going management of the property (enforcement, light maintenance, snow removal, insurance, and lighting, for example). Revenues from lease or license for use of that portion of the parcel not used for parking could generate additional revenue. Including all these costs and potential revenues would not change the fundamental finding of this analysis but would likely enhance the financial advantage of selling the property.

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