

STATE ADMINISTRATION
MARCH 30, 1981
RM 436

The meeting of the House State Administration Committee was called to order at 8:00 a.m. on March 30, 1981, with Chairman Jerry Feda presiding. All members were present except Representatives Azzara, Dussault, Smith and O'Connell.

HOUSE JOINT RESOLUTION 58-SPONSOR, Representative Ken Nordtvedt, introduced this Resolution to the committee. In 1979, the Montana Employment Security Division of the Department of Labor and Industry purchased a commercial building site in Bozeman to construct an office building. This Resolution urges the Division to sell this land to the private sector and then to lease or buy its office space at the least possible cost consistent with its needs. This land that the Division purchased, he said, was some of the most high priced commercial land in Bozeman and many people have questioned whether it was appropriate for state government to spend so much money for this site. The total cost of the land and the cost of the proposed building is close to a million dollars. This Resolution is an attempt to point out that there would be a much more economical way for the Employment Security Division to provide the necessary office space. At the present time, he stated, there is a wide variety of buildings and spaces they could choose from at a much lower cost. The lot they presently have could be providing around \$15,000 or more a year in property taxes to the city if it had a profitable private building on it. Also, he stated, the Division's original bids for this project all came in higher than the budget so this would be a good place to stop the project before another round of bidding is started.

PROPOSERS

RICK STAR, realstate broker in Bozeman, stated that he became aware of this problem a few weeks ago. He said that he reads the paper every day and he was not aware of this project. Being a broker, he stated, he is aware of the private and commercial lands in the area. He became concerned because the lot purchased by the Division is the most, and has been for several years, expensive commercial building lot in the town of Bozeman. There is a surplus of office spaces available in Bozeman at this time. The average cost of office space is around \$8 per square foot. Mr. Star said that if you look at the cost of this whole project and the annual dollars necessary to amortize the debt and provide for maintenance costs you would find that your rent would be \$30 a square foot.

ROGER KOOTMAN, owner of Career Concepts, Bozeman, passed out copies of Bozeman newspaper editorials concerning this issue. A copy is attached and is EXHIBIT 1 of the minutes. Mr. Kootman said that the primary reason there has been such an explosion by the people on this issue is that there really was not any real effort to put this project before public scrutiny and debate and in this time of inflation people are thinking in terms of cutting back costs in every aspect. This project represents a "glorification of government". Mr. Kootman said he would like to see the administration of the Division come forward and admit that they made a mistake, after all, he stated, we all make mistakes.

SENATOR PAUL BOYLAN, said that this building site is in his district and he cannot believe state government would do such a thing as this. He said that three years ago we gave them the OK to build a job security building in Bozeman but we had no definite architectural plans to look at at that time. There is a variety of rental space available to them in Bozeman even in there present building. I think, he said, this is robbing the working people to put up a "stone mansion".

OPPONENTS

DAVE HUNTER, designee for the Department of Labor and Industry, said that there are requirements to meet as far as public notification and hearings are concerned and the Division met those requirements. There was no opposition at that time. Concerning the issue of a loss of \$15,000 in property taxes to the local jurisdiction. "I think that is a false argument" because regardless of where the Division office is built that property is going to be tax exempt. Even if a commercial business was built on the site there would be some other property taken off if the job service office is built in another location. This is not an issue of tax savings because wherever the building is built it will be tax exempt. This has not been an issue in the past, in fact, the state has refused to do anything about the Capitol complex or the university systems in terms of controlling their cost of services. It is not right to single out the job service on this issue. As far as the expense of the site, in 1979 there were sites that were more and less expensive but the one the Department chose was the only one that met four criteria that the division set forth; adequate size, adequate parking, public accessibility and that the seller would accept the existing property as partial down payment. That is an important point, he said,

because the federal government would have wanted to recapture the equity in that building had we not been able to trade it as partial payment. If we had to sell now, we would have to address that problem again as to whether the federal government would want to recapture part of that equity. He said he is not sure that would be the case now but it was then. It has been the policy of this legislature and the long range building committee, for the state to purchase its buildings because over the long run they are less expensive than if they were leased. Mr. Hunter said that they have received information that shows that if they purchased a building in the downtown area there would not be adequate parking and in order to meet the parking requirements it would amount to about \$1,200 per stall which would be an additional \$48,000 in cost to build the building downtown. The other questions that arise are the financial ones. Would we be forced to pay back the federal government; what about the interest costs already paid (the department has been paying interest on long range bonds); redoing the architecture (losing the cost already invested); the question of arbitration in connection with the bonds.

BILL HAUCK, state architect, stated that the building is to be paid for out of federal reimbursements. The building as designed would include 8,371 square feet of space on the main floor with an unfinished basement. The estimated cost for this building is \$62.65 per square foot. This includes all the exterior work, architectural work and utilities. Mr. Hauck explained the design of the building in further detail for the committee.

QUESTIONS BY THE COMMITTEE

Spilker: Do you think the state could sell the new site and recover it's money.

Star: No way, there are comparable sites all over Bozeman that are selling for less than the purchase price, but it makes more sense to sell now and capture the majority of their investment rather than keep it and lose much more over the long run.

Sales: What else will be in the building?

Hunter: Just the job service.

Sales: The legislature should have been watching this more closely and this thing would never have gone this far.

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Representative Phillips asked for clarification of costs but was unable to get a clear answer.

Representative Nordtvedt closed the hearing on HJR 58. He said he is not against them purchasing instead of leasing but he is sure they can do it at less cost.

He stated that the sale of the bonds two years ago has been profitable to the state because interest rates have gone up and the money from these bonds has probably been receiving interest rates higher than the interest of the bonds in short term state accounts.

No executive session was held.

Meeting adjourned at 9:00 a.m.

Respectfully submitted,



G. C. "JERRY" FEDDA, Chairman

Cathy Martin-Secretary