

BEFORE THE ILLINOIS COMMERCE COMMISSION

Docket No. 07-_____

**Direct Testimony of David M. Swanson
On Behalf of AT&T Illinois**

AT&T Illinois Exhibit 1.0

March 20, 2007

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DIRECT TESTIMONY OF DAVID M. SWANSON

I. QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. David M. Swanson, 912 Country Club Drive, LaGrange, Illinois 60525.

Q. WHAT IS YOUR POSITION?

A. I provide real estate asset and transaction management services under contract to Illinois Bell Telephone Company (“AT&T Illinois”) and AT&T Services, Inc (“AT&T Services”).

Q. WHAT IS YOUR BUSINESS EXPERIENCE?

A. I was a real estate manager for Illinois Bell Telephone Company for 23 years. I handled purchases, zoning, sales, leases and administrative functions related to the Company’s real estate operations. Since July of 1994, I have been providing services on a contract basis, as D.M. Swan Enterprises, Inc. I am also a licensed real estate broker in the State of Illinois.

20 **II. PURPOSE**

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22 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

23 A. The purpose of my testimony is to describe the circumstances of the proposed
24 sale/leaseback of real property located at 65 West Webster, Joliet, Will County, Illinois
25 60435, and to demonstrate that the transaction is in the public interest.

26

27 **Q. PLEASE EXPLAIN WHY AT&T ILLINOIS MADE THIS FILING.**

28 A. AT&T Illinois has entered into an Agreement of Purchase and Sale, dated March
29 06,2007, with C.S. Prairie Realty, LLC, an Illinois limited liability company (“Buyer”)
30 for the sale of certain real estate located at 65 West Webster, Joliet, Will County, Illinois
31 60435 (“the Property”). The contracted sale price is \$11,770,000.00. A copy of the
32 Agreement of Purchase and Sale is attached as Schedule A. A list of the members of
33 Buyer is attached as Schedule B. As the sale is subject to the approval of this
34 Commission, AT&T Illinois is seeking approval of the transaction through this docket.

35

36 **Q. PLEASE DESCRIBE THE TRANSACTION IN MORE DETAIL.**

37 A. The transaction is a conventional fee sale of the facility, accompanied by a simultaneous
38 execution of a conventional lease of the Property back from Buyer by AT&T Services, an
39 affiliate of AT&T Illinois. AT&T Services is a wholly-owned subsidiary of AT&T, Inc.,
40 and is the primary real estate procurement and real estate management subsidiary for the
41 AT&T family of companies. AT&T Services will be leasing the Property from Buyer for

42 a primary Lease term of ten (10) years, with options to extend the Lease. AT&T Illinois
43 employees currently working at the Property will continue to work there.

44

45 **III. DESCRIPTION OF REAL ESTATE**

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47 **Q. PLEASE DESCRIBE THE REAL ESTATE WHICH AT&T ILLINOIS SEEKS TO**
48 **SELL.**

49 A. The Property measures approximately 280 feet by 184 feet (51,520 square feet), or 1.18
50 acres of land. The legal description of the Property is:

51 Lots 1, 2, 3, 4, and the west 18 feet of lots 5, 6, 7, and 8 in block 7 in Original Town of Joliet
52 (now Joliet); and the vacated north-south alley in said block 7; and the vacated east-west alley
53 lying between lots 2 and the west 18 feet of lot 7, and lot 3 and the west 18 feet of lot 6; all in the
City of Joliet, section 9, township 35 north, range 10, east of the third principal meridian, in Will
County, Illinois.

54 The Property's Real Estate Tax Parcel Index Number (PIN #) is 07-09-427-012-0000. A
55 copy of the survey is attached as Schedule C to this testimony.

56

57 **Q. PLEASE DESCRIBE ANY IMPROVEMENTS TO THIS REAL ESTATE.**

58 A. The Property is an improved, four-story masonry administrative office building with
59 adjacent paved parking. Telephone, electric, and City services are available.

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61 **Q. FOR WHAT PURPOSE IS THE REAL ESTATE USED?**

62 A. AT&T Illinois uses the Property to house an emergency operation center, two marketing
63 groups, and a network engineering office. We anticipate that such uses will continue.

64

65 **Q. WHAT ZONING CATEGORY APPLIES TO THE REAL ESTATE?**

66 A. The property zoning classification is designated B2 (Central Business District) and the
67 current operation of the property is of a conforming use.

68

69 **Q. WHAT IS THE CURRENT AT&T ILLINOIS INVESTMENT IN THESE**
70 **FACILITIES?**

71 A. Account 2111.20C (Operating Plant, Land) has a current investment of \$7,773,772.30,
72 and Account 2121.10C (Operating Plant, Buildings) has a current investment of
73 \$238,555.43.

74

75 **Q. PLEASE EXPLAIN WHY AT&T ILLINOIS WANTS TO ENTER INTO THIS**
76 **TRANSACTION.**

77 A. Sale/leasebacks of property are very common in business these days, and AT&T Illinois
78 wants to sell the Property while the real estate market is favorable. AT&T Services is
79 currently managing sale/leasebacks throughout AT&T's operating territory.

80

81 **Q. WHY IS THIS TRANSACTION IN THE BEST INTEREST OF THE PUBLIC?**

82 A. This transaction would benefit the public in two ways. First, the public benefits
83 whenever AT&T Illinois takes proactive measures to maximize the value of its assets.
84 The proceeds of a sale such as this will allow the Company to invest in new infrastructure
85 and upgrade its network. Second, the public benefits when AT&T Illinois is able to

86 streamline its operations. Having a centralized shared services entity like AT&T
87 Services assume administration of the Property leverages AT&T's buying power, and
88 allows greater flexibility in the use of real estate facilities.

89

90 **IV. MARKET VALUE OF REAL ESTATE**

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92 **Q. HOW WAS THE PROPERTY MARKETED TO THE PUBLIC?**

93 A. The Property was widely marketed through Marcus & Millichap, a well-respected
94 commercial real estate brokerage firm. Marcus & Millichap sent broadcast e-mails
95 nationally to its proprietary database of approximately 10,000 real estate brokers and
96 prospective investors. Interested parties were then furnished an electronic copy of a sales
97 brochure for the property (Schedule D).

98

99 **Q. WHAT KIND OF RESPONSE DID YOU RECEIVE FROM THIS MARKETING**
100 **EFFORT?**

101 A. During a marketing period of approximately 120 days, Marcus & Millichap received
102 requests from more than 70 prospects for sales/lease and submittal packages for the
103 Property. Seventeen offers were received, at purchase prices ranging from \$11,000,000
104 to \$12,530,967. AT&T Services and Marcus & Millichap reviewed the offers and
105 conducted negotiations with several of the offerors. The offers were then evaluated based
106 on several criteria, including the purchase price offered, the amount of rent to be paid
107 under the leaseback aspect of the transaction, the extent to which the offeror sought to

108 change AT&T's proposed lease terms, and the speed with which the offeror could close
109 on the transaction. Most of the offers that were higher than Buyer's offer were
110 withdrawn by the offering parties as they performed due diligence. AT&T selected
111 Buyer based on Buyer's proposed purchase price, the rents it proposed for the
112 transaction, its ability to close the transaction in a short timeframe, the extent to which it
113 has completed its due diligence efforts, and its acceptance of the lease terms.

114

115 **Q. DID AT&T ILLINOIS TAKE STEPS TO CONFIRM THAT THE BIDS**
116 **REFLECTED THE CURRENT MARKET VALUE OF THE REAL ESTATE?**

117 A. Yes. AT&T Illinois, through AT&T Services, hired Integra Realty Resources ("IRR") to
118 provide an Appraisal Report reflecting its professional estimate of the market value of the
119 Property. IRR's April 3, 2006, Appraisal was prepared by Will Kastilahn, Real Estate
120 Analyst, and Gary K DeClark, MAI & Managing Director of IRR. The appraisers'
121 opinion of the market value for the Property, on a fee simple basis, was \$7,800,000. A
122 copy of the Appraisal Report is attached as Schedule E. In my opinion, Buyer's offer
123 reflects the robustness of the current sale/leaseback market and the fact that the fee
124 simple value is enhanced in the Buyer's perspective by the value of having a 10 year
125 lease with AT&T Services. The purchase price, given these factors, is within a
126 reasonable range of variance from IRR's estimate of the Property's market value.

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128 V. **DESCRIPTION OF THE LEASE**

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130 Q. **PLEASE DESCRIBE THE TERMS OF THE LEASE.**

131 A. As mentioned above, AT&T Services will be leasing the Property back from Buyer for a
132 10-year term, with an option of extending the lease. The lease agreement between AT&T
133 Services and Buyer is attached as Schedule F. The annual lease payments are indicated
134 on Schedule F.

135

136 Q. **WHAT IS THE VALUE OF THE LEASE PAYMENTS FOR THE INITIAL 10-
137 YEAR TERM OF THE LEASE?**

138 A. The value of the lease payments for the initial 10-year term of the Lease is \$10,393,947
139 On a present value basis using 9.5 percent as an AT&T Illinois discount rate (i.e., the
140 after-tax average weighted cost of capital), the net present value of those payments equates
141 to \$4,041,891.

142

143 VI. **ACCOUNTING TREATMENT OF REAL ESTATE**

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145 Q. **WILL THE SALE AND LEASEBACK OF THIS REAL ESTATE IMPACT AT&T
146 ILLINOIS' RATE BASE?**

147 A. Yes. AT&T Illinois proposes to credit the Depreciation Reserve Account for Buildings,
148 Account 3100.10X, for \$3,138,285.86. A copy of the proposed journal entry is attached
149 as Schedule G.

150

151 **Q. WILL AT&T ILLINOIS REALIZE A GAIN OR LOSS ON THIS**
152 **TRANSACTION?**

153 A. AT&T Illinois will realize an estimated net gain on the land of \$96,305.26. This net gain
154 will be recognized in the determination of net income. (See Schedule G).

155

156 **Q. ARE THE REAL ESTATE SERVICES AT&T SERVICES PROVIDES TO AT&T**
157 **ILLINOIS INCLUDED IN THE COST ALLOCATION MANUAL (“CAM”) ON**
158 **FILE WITH THE COMMISSION?**

159 A. Yes. All services provided by AT&T Services to AT&T Illinois, as well as all services
160 AT&T Illinois provides to AT&T Services, are required to be included in AT&T Illinois’
161 CAM as affiliate transactions. The CAM is submitted to the Commission at least
162 annually in accordance with Part 711 of the Administrative Code, Cost Allocation for
163 Large Local Exchange Carriers, and in particular, Section 711.5(c). Attached as
164 Schedule H is Section V – Transactions with Affiliates of the CAM, which AT&T
165 Illinois submitted to the Commission on December 21, 2006. Pages V-5 and V-24 of
166 Exhibit H list Real Estate Support Services as a service that AT&T Services provides to
167 AT&T Illinois.

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169 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

170 A. Yes, it does.

171

172 I. **SCHEDULES**

173 A. Agreement of Purchase and Sale dated March 06, 2007.

174 B. List of members of C.S. Prairie Realty, LLC.

175 C. Plat of Survey.

176 D. Sales Brochure.

177 E. Appraisal dated April 3, 2006.

178 F. Lease Agreement.

179 G. Proposed AT&T Illinois' "Journal Entry."

180 H. Section V – Transactions with Affiliates of AT&T Illinois Cost Allocation
181 Manual (CAM) dated December 21, 2006.