

STATE OF ALASKA

OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET

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February 26, 2010

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The Honorable Bill Stoltze
Co-Chair, House Finance Committee
Alaska State Legislature
State Capitol, Room 515
Juneau, AK 99801-1182

The Honorable Mike Hawker
Co-Chair, House Finance Committee
Alaska State Legislature
State Capitol, Room 505
Juneau, AK 99801-1182

The Honorable Bert Stedman
Co-Chair, Senate Finance Committee
Alaska State Legislature
State Capitol, Room 516
Juneau, AK 99801-1182

The Honorable Lyman Hoffman
Co-Chair, Senate Finance Committee
Alaska State Legislature
State Capitol, Room 518
Juneau, AK 99801-1182

Re: FY2011 Capital Budget Process Information

Dear Finance Committee Co-Chairs:

During overview discussions with the finance committees, several questions were asked about the differences between projects that were included in the regular capital budget, the deferred maintenance budget, and the supplemental capital budget, and how the decisions were made regarding each bill. The following highlights several statutory definitions regarding capital projects:

AS37.07.120 defines the following terms:

(4) "capital projects" and "capital improvements" mean an allocation or appropriation item for an asset with an anticipated life exceeding one year and a cost exceeding \$25,000 and include land acquisition, construction, structural improvement, engineering and design for the project, and equipment and repair costs;

(5) "facility operations" means activities and expenses relating to the day-to-day operations of a building or facility, including utilities, janitorial service, security service, snow removal, and direct supervision of related maintenance activities;

...

(7) "maintenance and repair" means the day-to-day scheduled and preventive maintenance effort, including minor repair work, required to keep a building or facility operational and in a continuous state of readiness;

...

(10) "renewal and replacement" means the scheduled replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility.

AS 37.07.020 states:

(e) The budget prepared under (a) of this section must present the proposed operating expenditures for each agency for annual facility operations, annual maintenance and repair, and periodic renewal and replacement for components of public buildings and facilities separately from the other proposed operating expenditures by the agency. Proposed annual appropriations for an agency's facility operations, maintenance and repair, and renewal and replacement for components of public buildings and facilities contained in an appropriation bill prepared under (a) of this section must be presented separately from appropriations for other proposed operating expenditures by the agency.

Clearly, the Legislature has intended that the administration propose budgets that facilitate the operation, maintenance, repair and replacement of State facilities.

FY2011 Process

The agency operating budgets have specific appropriations for "...annual facility operations, annual maintenance and repair, and periodic renewal and replacement for components of public buildings and facilities...", per AS 37.07.020(e). These operating appropriation requests are included in the agency's FY2011 Governor operating budget requests. When the task goes beyond "facility operations" and "maintenance and repair" as defined in AS 37.07.120(5) and (7) respectively, and exceeds "...an anticipated life exceeding one year and a cost exceeding \$25,000..." per AS 37.07.120(4), a capital project budget request is submitted.

The original Governor's capital budget released on December 14, 2009 included both a regular capital section (Section 1) that requested funding for, among other things, annual "renewal and replacement" budget requests from agencies, and a separate deferred maintenance bill section (Section 4) for addressing the \$1.9 billion of deferred maintenance on State facilities, roads, airports, harbors and the Alaska Marine Highway System.

In his State of the State message, the Governor highlighted his request for \$100 million to begin to address the back log of deferred maintenance needs and asked that the legislature pass this funding by March 1 in order to put Alaskans to work on these projects this spring and summer, rather than waiting until July 1.

"Deferred" is defined as "postponed; delayed" in the dictionary. The deferred maintenance projects are simply capital projects to address annual maintenance and repair, and periodic renewal and replacement for components of public buildings and facilities that have not been addressed, primarily due to lack of sufficient funding.

The administration's first opportunity to bring the deferred maintenance package to the legislature for consideration as a supplemental appropriation in FY2010 was in the supplemental request. On February 2, the governor introduced two separate supplemental bills; HB325 relating to the deferred maintenance package and HB326, the regular supplemental bill. There is no question that the two supplemental bills could have been combined into one bill. However, having separate legislation was our effort to provide distinct requests for your consideration.

On February 2, 2010 the Governor submitted the supplemental budget. Governor Parnell gave specific instructions that supplemental requests should address unanticipated or extraordinary circumstances. Most of the capital supplemental requests included in the Governor's supplemental bill were for urgent and emergency needs.

The Governor's request that the deferred maintenance package be addressed early was simply to provide this funding to boost the economy and put Alaskans to work. The urgency in providing funding for deferred maintenance projects earlier than the regular supplemental bill was not meant to imply that the deferred maintenance projects are an emergency. If these projects are included within other appropriation bills at the end of the session, it will delay the availability of the funding until the entire package of appropriation bills are reviewed and signed by the governor.

Two concerns have been expressed by both the Governor, and the House and Senate Finance committees regarding the deferred maintenance projects:

- The projects should not fund State employees.
- The projects should not build new facilities.

Taking these points into consideration, the administration looked at the projects that had been moved to the deferred maintenance supplemental bill, and amended a few projects to address these concerns in the budget amendments released February 17, 2010. Although deferred maintenance often means that a facility, system or equipment does need to be replaced, the administration scrubbed the deferred maintenance projects to fit the definition of "renewal and replacement" in AS 37.07.120(10). Complete facilities were not replaced; however, allowance was made for "...replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility." Emphasis was placed on life, health and safety needs.

Sincerely,



Karen J. Rehfeld
Director

Enclosures

cc: David Teal, Legislative Finance Division