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April 5, 2013

The Honorable Kevin Meyer
Co-Chair, Senate Finance Committee

The Honorable Pete Kelly
Co-Chair, Senate Finance Committee

Dear Senator Meyer and Senator Kelly,

During the Finance Committee hearing on Senate Bill 74, relating to the University Building Fund (UBF), several questions were asked by committee members. Kit Duke asked me to forward the following responses to those questions:

1. **How much funding was appropriated to the Alaska Public Building Fund (APBF) when it was created?**

   According to Vern Jones, the Department of Administration's Chief Procurement Officer, the legislature appropriated $8,567,900 in capital funds to the APBF in the FY2001 budget for purposes of addressing the deferred maintenance backlog associated with the buildings covered under the fund. The covered buildings ranged from 5-25 years in age with a deferred maintenance backlog of approximately $50 million, or an average of $11.00/SF.

   The university buildings that would initially be covered by the UBF (those 15 years old or newer, as mentioned yesterday at the hearing) have about $10.7 million in maintenance backlog, or an average of $5.50/SF.

2. **What is the University's upper limit on bond funding?**

   Regarding debt capacity, there is no statutory limit that applies to the University of Alaska. However, there is a statutory requirement that UA notify the legislature and obtain its authorization when the debt service for a specific obligation is expected to exceed $2.5 million annually. AS 14.40.053 provides as follows:

   > **Sec. 14.40.253. Financing notice and approval.** If the University of Alaska intends to enter into an obligation, except for refinancing obligations, under AS

> 14.40.040(a)(5) with an annual payment by the university anticipated to exceed $2,500,000, the university shall provide notice to the legislature. The notice must include the anticipated annual payment amount, the anticipated financing, and the total construction, acquisition, or other costs of the project. The university may not enter into an obligation requiring a financing notice under this section, other than a refinancing obligation, unless the project has been approved by the legislature by law. An appropriation for the project does not constitute approval of the project for the purpose of this section.

$2,500,000 in debt service for a specific obligation translates to approximately $40 million of actual debt principal over 30 years, although this amount will vary depending on market interest rates.

Regents' Policy P05.04.020.B provides that "[t]he university's annual debt service, including any proposed issue, shall not exceed 5 percent of the university's unrestricted revenues." Currently, annual debt service is approximately 2.8% of unrestricted revenues, with the maximum annual debt service year being FY16. Debt capacity hinges heavily on ability to pay, and so all facts and circumstances need to be taken into account. The more debt that is issued, especially when there is no corresponding revenue stream, the more pressure there is on credit ratings, which can lead to a higher borrowing rate in the event of a downgrade.

3. **Why is there no language in the bill indicating that the bill is not intended to create a dedicated fund?**

This question is best answered by Legislative Legal Services, which prepared the final bill draft. The university does not propose creation of a dedicated fund.

Please advise if we can provide any additional information.

Sincerely,

C. S. Christensen III
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