ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE
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MEMORANDUM

DATE: January 21, 2017

TO: Senator Lyman Hoffman, Senate Finance Co-Chair
Senator Anna MacKinnon, Senate Finance Co-Chair
Representative Paul Seaton, House Finance Co-Chair
Representative Neal Foster, House Finance Co-Chair

FROM: David Teal
Director of Legislative Finance Division

SUBJECT: Agency responses to FY17 Legislative Intent Language

This memorandum restates FY17 legislative intent (*italics*) for each agency and provides agency responses (indented) to our request for status reports. Due to the quantity of intent language this year, two documents are provided.

1. A summary table with all legislative intent and a concise statement on the status of the intent.
2. A detailed report with legislative intent, agency responses and Legislative Finance Division comments.

For complete responses, see the intent item number and page number in the first two columns of the summary table.

DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT

Mt. Edgecumbe Boarding School/Mt. Edgecumbe Boarding School

Operating Budget (CCS HB 256)

15. *It is the intent of the legislature that the department identify a source of funding other than general funds for the operating cost of the Mount Edgecumbe High School Aquatics Facility.*

The Department of Education & Early Development (DEED) is exploring options for identifying sources of funding other than general funds for the operating costs of the Mount Edgecumbe High School (MEHS) Aquatics Facility. DEED/MEHS has had preliminary discussions with various potential users and stakeholders of the aquatics facility, including the Sitka School District, City and Borough of Sitka, U.S. Coast Guard, the Southeast Alaska Regional Health Consortium (SEARHC), and the Alaska State Troopers. In addition, DEED/MEHS is working with the Department of Transportation & Public Facilities (DOTPF) and the aquatic facility contractors to identify a potential fee schedule that can be assessed for use of the aquatics facility. While there have been no commitments from stakeholders to provide any funding at this point in time, conversations are expected to continue in the coming months. Furthermore, the operations and maintenance costs that have been identified still exceed any revenues DEED/MEHS could expect to receive from stakeholders or through the fee schedule, so it is anticipated that DEED/MEHS will still need to receive a direct appropriation of general funds in order to operating the aquatics facility.

Legislative Fiscal Analyst Comment: The department has worked with stakeholders to find non-general fund sources of funding for the aquatics facility, which will reduce but not eliminate the general fund request for its operation. In the FY18 Governor's budget, the department is requesting an increment of $100.0 UGF for operation of the facility.

Alaska Postsecondary Education Commission/Program Administration & Operations

Operating Budget (CCS HB 256)

16. *It is the intent of the Legislature that the Alaska Commission on Postsecondary Education review all services offered in relation to its mission and core services, and report back to the Legislature no later than January 21, 2017 with recommendations on statute changes that would reduce the number of services offered by the Commission.*

It is the intent of the legislature that the Alaska Commission on Postsecondary Education will develop a plan to privately service the Alaska Student Loan Corporation's remaining loan portfolio and deliver a report to the Finance committees no later than January 17, 2017.

The Alaska Commission on Postsecondary Education has taken steps to address the legislative intent language in CCS HB 256. A report with recommendations on statute changes as well as a report on developing a plan to privately services the Alaska Student Loan Corporation's remaining loan portfolio are both on-going and will be forth coming to the Legislature.

Department of Education and Early Development

Capital Budget (HCS CSSB 138)

17. *It is the intent of the legislature that the Department of Education and Early Development add to their criteria when reviewing project applications for school major maintenance grants (AS 14.11.007) that all eligible energy efficiency improvements be excluded from the grant process and the grantee be redirected to work with the Alaska Housing Finance Corporation on receiving a loan through the Alaska Energy Efficiency Revolving Loan Fund (AS 18.56.855).*

The Department of Education & Early Development (DEED) is aware of the legislative intent language expressed in HCS CSSB 138. The Alaska Energy Efficiency Revolving Loan Fund Program (AEERLP) will not accommodate DEED's major maintenance grant capital improvement projects (CIP). This is due to the CIPs being predominately mixed scope projects, or small projects. Mixed scope projects combine work for multiple needs such as code upgrades, rehabilitation, and energy upgrades. These mixed scope projects would generally not meet the required annual energy cost savings to pay back an AHFC loan because energy efficiencies are commingled and not a majority of the work under the CIP. CIPs are submitted as mixed scope because aging systems need repair along with other needs and the work is not discrete. If an attempt were made to carve a mixed scope project into multiple small projects, prices could be negatively impacted by loss of economy of scale, duplicate effort, and loss of a competitive bid climate due to smaller projects.

While the AEERLP encompasses all public buildings, not just schools, the AEERLP requires applicants to purchase energy audits, contract with energy service companies (ESCO's), and meet other underwriter requirements in addition to the qualifying savings to meet loan payments. For those that meet the strict loan criteria, the cost of capital through AHFC compared to the marketplace may be an impediment. In addition, municipalities and school districts have individual conditions around borrowing money including voter approval and other requirements that would need to be vetted at a local level.

DEED's CIP program uses a consistent and transparent ranking process as outlined in statute. Specifically, AS 14.11.013(c)(3) gives DEED authority to remove a project from the CIP list.

AS 14.11.013(c)(3) states: (c) the department may

(3) reject project requests and omit them from the six-year schedule due to

(A) incomplete information or documentation provided by the district;

(B) a determination by the department that existing facilities can adequately serve the program requirements, or that alternative projects are in the best interests of the state;

(C) a determination that the project is not in the best interest of the state.

While none of the reasons provided in (A) through (C) above directly address removal based on energy efficiencies, and directing school districts to the AEERLP, during the review process DEED could direct school districts to the AEELRP if the CIP were found to have a majority of elements that appeared to meet the AHFC loan criteria. While DEED could incorporate this into our process, it is likely this would only address a small percentage of projects due to the mixed scope within the majority of the submitted CIPs.

Legislative Fiscal Analyst Comment: The department reviewed the possible benefits of AEERLP, but found that it would meet very few needs. To make this a viable option for school districts, the loan program may need to be modified, rather than DEED's process.