

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

April 18, 2002

8:02 a.m.

MEMBERS PRESENT

Representative John Coghill, Chair
Representative Jeannette James
Representative Hugh Fate
Representative Gary Stevens
Representative Peggy Wilson
Representative Harry Crawford
Representative Joe Hayes

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 364

"An Act relating to capital projects for deferred maintenance, replacement, modification, and expansion of state facilities; relating to leases to secure financing for those projects; relating to the issuance of certificates of participation to finance those projects for certain capital facilities owned by the state; giving notice of and approving the entry into, and the issuance of certificates of participation in, lease-financing agreements for those projects; and providing for an effective date."

- MOVED CSHB 364(STA) OUT OF COMMITTEE

SENATE JOINT RESOLUTION NO. 38

Proposing amendments to the Constitution of the State of Alaska relating to information regarding proposed expenditures.

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 364

SHORT TITLE: STATE FACILITIES

SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

Jrn-Date	Jrn-Page	Action
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HOUSE STA COMMITTEE

-1-

April 18, 2002

01/30/02	2095	(H)	READ THE FIRST TIME - REFERRALS
01/30/02	2095	(H)	STA, FIN
01/30/02	2095	(H)	FN1: (REV)
01/30/02	2095	(H)	GOVERNOR'S TRANSMITTAL LETTER
02/04/02	2151	(H)	FN1: (REV) CORRECTED/REPLACED
04/16/02		(H)	STA AT 8:00 AM CAPITOL 102
04/16/02		(H)	Scheduled But Not Heard -- Recessed to Thurs. 4/18/02 --
04/18/02		(H)	STA AT 8:00 AM CAPITOL 102

BILL: SJR 38

SHORT TITLE: CONST AM: PRIORITY OF EXPENDITURES

SPONSOR(S): SENATOR(S) KELLY

Jrn-Date	Jrn-Page		Action
02/19/02	2226	(S)	READ THE FIRST TIME - REFERRALS
02/19/02	2226	(S)	STA, JUD, FIN
02/26/02		(S)	STA AT 3:30 PM BELTZ 211
02/26/02		(S)	Moved SJR 38 Out of Committee
02/26/02		(S)	MINUTE(STA)
02/27/02	2318	(S)	STA RPT 3DP 1NR
02/27/02	2318	(S)	DP: THERRIAULT, HALFORD, PHILLIPS;
02/27/02	2318	(S)	NR: STEVENS
02/27/02	2318	(S)	FN1: (GOV)
03/18/02		(S)	JUD AT 1:30 PM BELTZ 211
03/18/02		(S)	Moved Out of Committee
03/18/02		(S)	MINUTE(JUD)
03/20/02	2472	(S)	JUD RPT 3DP 1NR
03/20/02	2472	(S)	DP: TAYLOR, COWDERY, THERRIAULT;
03/20/02	2472	(S)	NR: ELLIS
03/20/02	2472	(S)	FN1: (GOV)
03/22/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/22/02		(S)	Moved Out of Committee
03/22/02		(S)	MINUTE(FIN)
03/22/02	2501	(S)	COSPONSOR(S): DONLEY, LEMAN
03/22/02	2496	(S)	FIN RPT 5DP 4NR
03/22/02	2496	(S)	DP: DONLEY, KELLY, GREEN, WARD, LEMAN;
03/22/02	2496	(S)	NR: AUSTERMAN, HOFFMAN, OLSON, WILKEN
03/22/02	2496	(S)	FN1: (GOV)
03/26/02		(S)	RLS AT 11:00 AM FAHRENKAMP

			203
03/26/02		(S)	MINUTE(RLS)
03/28/02	2559	(S)	ADVANCED TO THIRD READING FLD Y14 N3 E3
03/28/02	2556	(S)	RULES TO CALENDAR 1OR 3/28/02
03/28/02	2559	(S)	READ THE SECOND TIME
03/28/02	2560	(S)	ADVANCED TO THIRD READING 4/2 CALENDAR
04/02/02	2592	(S)	READ THE THIRD TIME SJR 38
04/02/02	2592	(S)	HELD IN THIRD READING TO 4/8 CALENDAR
04/08/02	2664	(S)	ELTON NOTICE OF RECONSIDERATION
04/08/02	2663	(S)	BEFORE THE SENATE IN THIRD READING
04/08/02	2664	(S)	PASSED Y14 N5 E1
04/09/02	2692	(S)	RECONSIDERATION NOT TAKEN UP
04/09/02	2693	(S)	TRANSMITTED TO (H)
04/09/02	2693	(S)	VERSION: SJR 38
04/10/02	2861	(H)	READ THE FIRST TIME - REFERRALS
04/10/02	2861	(H)	STA, JUD, FIN
04/16/02		(H)	STA AT 8:00 AM CAPITOL 102
04/16/02		(H)	Scheduled But Not Heard -- Recessed to Thurs. 4/18/02 --
04/18/02		(H)	STA AT 8:00 AM CAPITOL 102

WITNESS REGISTER

JACK KREINHEDER, Chief Analyst
Office of the Director
Office of Management & Budget
Office of the Governor
PO Box 110020

Juneau, Alaska 99811-0001

POSITION STATEMENT: Testified and answered questions on HB 364 and SJR 38.

NANCY SLAGLE, Director
Division of Administrative Services
Department of Transportation & Public Facilities
3132 Channel Drive
Juneau, Alaska 99801-7898

POSITION STATEMENT: Testified and answered questions on HB 364.

DEVEN MITCHELL, Debt Manager
Treasury Division

Department of Revenue
PO Box 110405
Juneau, Alaska 99811-0405
POSITION STATEMENT: Answered questions on HB 364.

ANDREA DOLL, President
Friends of Alaska State Museum
12175 Glacier Highway, A204
Juneau, Alaska 99801
POSITION STATEMENT: Testified in support of HB 364.

CLARK GRUENING, Lobbyist
for Alaska Historical Society,
Alaska Museums, and
Friends of the Alaska State Museum
217 Second Street, Number 204
Juneau, Alaska 99801
POSITION STATEMENT: Answered questions on HB 364.

WENDY HALL, Staff
to Senator Pete Kelly
Alaska State Legislature
Capitol Building, Room 518
Juneau, Alaska 99801
POSITION STATEMENT: Presented SJR 38 on behalf of sponsor.

SENATOR PETE KELLY
Alaska State Legislature
Capitol Building, Room 518
Juneau, Alaska 99801
POSITION STATEMENT: Testified and answered questions as sponsor
of SJR 38.

ACTION NARRATIVE

TAPE 02-42, SIDE A
Number 0001

CHAIR JOHN COGHILL reconvened the House State Affairs Standing
Committee meeting at 8:02 a.m. [This meeting was recessed on
April 16, 2002.] Representatives Coghill, James, Fate, Stevens,
and Wilson were present at the call to order. Representatives
Crawford and Hayes arrived as the meeting was in progress.

HB 364 - STATE FACILITIES

[Contains discussion pertaining to HB 365].

CHAIR COGHILL announced that the first order of business would be HOUSE BILL NO. 364, "An Act relating to capital projects for deferred maintenance, replacement, modification, and expansion of state facilities; relating to leases to secure financing for those projects; relating to the issuance of certificates of participation to finance those projects for certain capital facilities owned by the state; giving notice of and approving the entry into, and the issuance of certificates of participation in, lease-financing agreements for those projects; and providing for an effective date."

Number 0147

JACK KREINHEDER, Chief Analyst, Office of the Director, Office of Management & Budget, Office of the Governor, came forward to testify. He explained that in 1997 to 1998 there was a deferred maintenance task force that inventoried all the state's deferred maintenance needs. Unfortunately, by the time its report came out, oil had dropped to about \$9 per barrel. The university got some deferred maintenance funding, but the grand total for state buildings was only about \$750,000, which was just a "drop in the bucket" compared with the needs.

MR. KREINHEDER showed the committee some slides of the buildings around the state with serious deferred maintenance needs. He urged the members who haven't toured any of the facilities to do so to see some of the conditions firsthand.

Number 0388

MR. KREINHEDER noted that the State Archives Building in Juneau was built half on bedrock and half on pilings. The half on pilings settled, so the building was literally ripping in half. Instead of paying \$800,000 to fix the foundation and the leaky roof, it was decided to replace the building and combine it with a museum expansion.

MR. KREINHEDER pointed out that the Dimond Courthouse in Juneau has problems with a leaky roof and corrosion in the drains. It was built in the 1970s and needs of some serious maintenance. The parking structure for the State Office Building has some corrosion problems and serious structural damage, which poses a safety threat if not repaired. The State Office Building in Juneau has roof problems. The Alaska State Museum in Juneau has asbestos problems. He explained that there is an asbestos

problem in a number of state buildings, which adds to the cost of repair.

MR. KREINHEDER said that the siding has fallen and blown off the State Office Building in Nome. He explained that the reason why these buildings are in disrepair is that since 1986, the maintenance budgets for buildings and roads have been cut repeatedly, but now it is a long-term problem.

MR. KREINHEDER showed slides of the old court building, the DOT&PF [Department of Transportation and Public Facilities] Peger Road complex in Fairbanks, and a state parks facility, all in need of repair and maintenance. He pointed out that the money collected from state parks goes into the general fund, not park maintenance.

Number 1035

MR. KREINHEDER mentioned that the buildings in Soldotna have lead in the water and an out-of-order fire alarm system. The McLaughlin Youth Center in Anchorage has moisture damage from a leaky roof, and the Juneau Public Health Center has a heating system failure.

Number 1185

REPRESENTATIVE FATE noted that some of the slides showed normal wear and tear, but some looked like faulty design and construction. He asked what has been done to solve the problems of the design and construction.

MR. KREINHEDER agreed that some of these problems might have been avoided or reduced through better design. He mentioned that some of the departments involved in design and construction have learned from some of these problems, but some of the problem is the fact that state government is required to go with the lowest bidder, so in some cases, the state ends up with buildings that have a lower service life.

REPRESENTATIVE FATE argued that the design doesn't have much to do with bidding process. The design determines whether there will be those kinds of failures, he stated.

MR. KREINHEDER answered that he didn't know whether all the buildings were built by the state or private parties. He pointed out that the Court Plaza Building was built by the private sector and acquired by the state.

REPRESENTATIVE FATE acknowledged that there is a huge problem in this area, and he suggested it be mitigated in the future by better design and construction.

Number 1385

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation & Public Facilities, came forward to testify. She told the committee that design is a critical part of the facilities. She noted that it has been many years since the state has built buildings, and the age of these reflects that. She noted that an effort is being made to make sure that the people on staff doing design work are properly trained and certified. She agreed that looking at the past building failures is helpful. She said most of the current staff weren't on board 30 years ago. She said she believes that the staff is doing a good job now.

REPRESENTATIVE JAMES asked what was the bottom dollar in the Deferred Maintenance Task Force report from several years ago.

Number 1600

MR. KREINHEDER answered that the report addressed buildings, highways, and ferries. The total for buildings at that time was \$169 million. The total of the package was in excess of \$200 million. He said that this proposal is for about \$157 million.

REPRESENTATIVE JAMES said she believes that there needs to be an allocation each year based on the "life-cycle costing" of the buildings and facilities around the state, so the disrepair doesn't keep happening. Deferred maintenance only means no maintenance, she commented.

Number 1753

MR. KREINHEDER referred to the discussion several meetings ago on HB 444, Alaska Public Building Fund, and explained that the rents collected are adequate to properly maintain the buildings, but don't cover "catching up" on the past. If the roofs and pipes can be fixed for the buildings in the public building fund, then they can be kept up, and the state won't be faced with this in the future.

Number 1800

REPRESENTATIVE WILSON expressed concern about a flat-roofed building being built in Fairbanks. She said she understood that flat-roofed buildings leaked and had problems, but she was told there was new technology and that wasn't a problem anymore.

Number 1889

REPRESENTATIVE STEVENS asked why the Capitol Building, which was built over 50 years ago, is in much better shape than the courthouse built in Kodiak more recently.

MR. KREINHEDER replied that it was a very sturdy building built soundly with brick and concrete, but it is one of the buildings in the state that has been adequately maintained. By virtue of housing the governor and the legislature, it hasn't been subjected to the cuts to the degree that other buildings have been.

REPRESENTATIVE JAMES mentioned that she also has heard that there is new technology for a flat roof, and there are some advantages to a flat roof. She pointed out that the funding for the Capitol Building is in the legislature's budget and "we take care of our own, ... yet we don't seem to have the necessary 'guts' ... to take care of all these other things."

REPRESENTATIVE FATE explained to the committee that the technology involved in the flat-roof building at the University of Alaska Fairbanks had been studied scientifically. He agreed that some of the new design technology can alleviate some of the problems and extend the life of buildings, but that's not to say that they don't have to be maintained. He agreed that there is a huge problem in deferred maintenance, but the design and the methods of construction contribute to the problem.

Number 2122

CHAIR COGHILL made a motion to adopt the proposed committee substitute (CS) for HB 364, version 22-GH2007\C, Bannister, 4/11/02, as a work draft. There being no objection, Version C was before the committee.

CHAIR COGHILL asked Mr. Kreinheder to discuss HB 364 but asked him if another bill, HB 365, directly corresponded with "the A version" and why there are two vehicles for this subject.

MR. KREINHEDER explained that HB 365 was referred directly to the House Finance Committee. He provided copies to the members

because it is a package. He said there will be changes, but that will be taken up with the House Finance Committee.

Number 2259

MR. KREINHEDER said the original bill submitted was about \$136 million. Since then, some projects have been added [hence the proposed CS]. The largest project is about \$20 million in funding for four DOT&PF highway maintenance stations. Originally, those were going to be in governor's FY [fiscal year] 03 capital budget, but they are included in this proposal instead.

MR. KREINHEDER highlighted a few of the projects and their funding levels from the bill. He explained that the amount for the university was not higher because it received about \$50 million plus some subsequent funding several years ago for deferred maintenance, and it is still in the process of spending that money.

MR. KREINHEDER explained that there would be an additional \$5 million total for Americans with Disability Act projects statewide. The state agencies would get \$2.5 million and the university would get \$2.5 million. The bill does include some replacement and expansion projects. In some cases, facilities are being replaced when it is not economical to repair them.

Number 2476

CHAIR COGHILL asked if the money for the veterans' housing is totally separate from what has been proposed for the pioneers' homes.

MR. KREINHEDER replied that the money could be used either as a joint project or as its own facility.

Number 2492

REPRESENTATIVE STEVENS asked Ms. Slagle about the highway maintenance stations. He understood that some were being closed, but here are four new ones.

Number 2518

MS. SLAGLE replied that the House budget for FY 03 reflects seven maintenance stations' being closed. The Senate version of the budget leaves four open; three may need to be actually

closed. Those are different maintenance stations than those in HB 364. The ones that HB 364 would close are in areas where services could be picked up by other nearby maintenance stations.

Number 2627

REPRESENTATIVE JAMES asked if the numbers would change if the funding for veterans' housing were used for a veterans' facility as opposed to a combined facility for veterans and pioneers.

MR. KREINHEDER answered that this money is flexible and could be used either for a separate wing for the veterans on an existing pioneers' home, so the food service facilities could be shared to make it less expensive, or for a complete stand-alone home. The costs might vary. The \$4 million, combined with matching federal money, would get this project well on the way.

Number 2752

REPRESENTATIVE FATE commented that something needs to be done about deferred maintenance on the maintenance station between Fairbanks and Big Delta for the missile defense facility.

REPRESENTATIVE STEVENS commented that it seemed the wrong time to close the Kodiak maintenance station to the Kodiak rocket launch, which also will be used for missile defense.

MR. KREINHEDER said he certainly empathized with the two members' concerns about the particular maintenance stations, and noted that it points out the difficult decision of reducing millions of dollars from DOT&PF's budget. The closures are going to be in one legislator's district or another's, and that legislator, of course, is not going to be happy about it, he said.

Number 2886

REPRESENTATIVE JAMES asked who makes the decision about which maintenance stations will be closed.

Number 2900

MS. SLAGLE replied that the commissioner makes the decision with information he's been provided by the maintenance staff.

REPRESENTATIVE JAMES said she doesn't think this has to do with [stations] being in any legislator's district; the one Representative Fate is concerned about is not in his district. She said they're not complaining about the district issue. they're talking about the functional issue of statewide concerns.

MS. SLAGLE added that there are other cuts to DOT&PF in addition to maintenance station closures. Positions are being deleted all over the state, including giving up maintenance on "category three" roads in Southeast Alaska.

TAPE 02-42, SIDE B
Number 2979

MS. SLAGLE said when the costs can't be cut enough to live within the proposed budget, some fixed costs have to be identified and given up, and that explains those maintenance station closures.

REPRESENTATIVE JAMES commented that when those decisions are made, she hopes that the concerns mentioned today are considered.

Number 2923

MR. KREINHEDER reiterated that with the amendments, there is about \$157 million in total for 560 or 565 projects. The financing mechanism proposed for this deferred maintenance package would use certificates of participation [COPs], which is a form of debt financing widely used by most states. It is well tested, and Alaska has used it before.

MR. KREINHEDER said there is some concern from some legislators about the COP approach. They prefer a general obligation [GO] bond placed on the ballot. The GO approach was considered, but there are three main reasons why the COP was chosen. The first reason is timing. These are critical projects and the damage gets worse every year. Even waiting one construction season can result in hundreds of thousands of dollars of additional damage. With the GO approach, the projects wouldn't be on the ballot until the fall; the 2002 construction season would be over, and many of the projects wouldn't be done until the summer of 2003. If the COP approach was passed by the legislature this session, these projects could get going, and the more critical ones, hopefully, could be completed this summer.

MR. KREINHEDER said the second reason is that the longer the wait, the more expensive it gets. He said the state can pay now or pay later. These projects do need to get done. The third reason is the concern of "overloading" the ballot with the GO bond. Experience has shown in municipal elections that the larger the bond issue, the less likely it is to pass; the smaller it is, the more likely it is to pass. If schools and other projects are placed on the GO bond, it could reduce the chance of the package passing.

Number 2652

REPRESENTATIVE JAMES added that she believes deferred maintenance is primarily a legislative responsibility. She supported the COP methodology rather than GO bonds. There should be a list of projects by severity and need, and that kind of list is not necessarily done for GO bonds.

Number 2543

REPRESENTATIVE HAYES referred to the \$1.7 billion figure and the \$156 million for the COP and wondered what happens to the difference. He also asked, with all the maintenance that is being proposed, whether the economy would be "superheated" on the construction side. He expressed concern about losing jobs to out-of-state workers.

MR. KREINHEDER referred to the first question and said the \$1.7 billion figure was the grand total, which included ferries and highways in addition to the buildings. To keep this package realistic, this amount was settled on to balance the competing needs. This amount would cover the most critical needs for the buildings in the public building fund. Additional funding probably will be needed in the future, either through the capital budget or a bond issue. This won't solve the problem, but it will be a major improvement.

MR. KREINHEDER commented that the question about the amount of construction has been heard before. There is a lot of construction going on in the Railbelt area and Anchorage, but one thing in favor of these projects is that a lot of them are relatively small projects. They would be put out to bid in many smaller contracts, so a lot of smaller Alaskan contractors would be able to bid. He said he thought out-of-state contractors would be less likely to bid on the smaller contracts.

MR. KREINHEDER reiterated that the most urgent work needs to be started quickly. The bulk of the money probably would be spent over a two-year period, and the balance maybe over the third year. If this bill is passed in May, there won't be a slew of contracts all going out in June. Some of them may have some design work involved, so it would be spread over the 2002-to-2003 construction season, with some projects completed in 2004.

Number 2308

REPRESENTATIVE FATE agreed that the COP is the right method, but noted that the facility is the collateral. He asked if there was an accelerated depreciation schedule with the COP method that takes into consideration the life expectancy of the buildings in the various regions around the state, where it differs.

MR. KREINHEDER thanked Representative Fate for bringing up the security issue. Since only \$157 million is needed for security, not all the buildings need to be used for security. A few of the larger ones with the most value would be picked because they would add up to the security needed. The risk of any default would be extremely low.

MR. KREINHEDER said if the package stayed at \$157 million, the annual debt service would be about \$15 million a year based on 15-year financing and an interest rate of about 4.9 percent. He pointed out that the interest rate is another good reason to do this now.

MR. KREINHEDER referred to concern about whether the state could spend \$15 million a year. He indicated that that amount or more would be spent in emergency repairs or closing some of the buildings and leasing space, which would cost more over the long run.

CHAIR COGHILL asked what the annual debt service is.

Number 2090

DEVEN MITCHELL, Debt Manager, Treasury Division, Department of Revenue, replied that the annual debt service is about \$70 million.

REPRESENTATIVE FATE asked if the 4.9 percent interest rate was fixed and if there would be the opportunity to fix that at the time of the deal.

MR. MITCHELL answered yes, it was fixed, but there would be an opportunity to potentially reduce that rate over time. He explained that since this would be a 15-year term, there would be a 10-year call, so there would be the potential to refund the bonds. While 4.9 percent is the rate stated in there, the actual rate, if bonds were issued today, would be slightly less.

REPRESENTATIVE JAMES said if the legislature isn't going to go this way, she supports the idea of selling the buildings and leasing them back and letting the private sector get involved. She asked about the arbitrage on the bonds that are sold for a longer period of time and how that money is treated.

MR. MITCHELL said that arbitrage refers to the reinvestment of bond proceeds either in a construction fund or a reserve fund on a bond issuance. In the COPs for the State of Alaska there no longer are reserve funds, so it would just be in a construction fund. The bill was drafted so that the earnings on these projects could be used on the projects. The best way to approach this is to realize that the projects are going to "trail out" cash over a period of years, and that money will not sit there idly; the money will be reinvested and will enhance what can be done with this money.

Number 1804

ANDREA DOLL, President, Friends of Alaska State Museum ("Friends"), came forward to testify on the land acquisition and expansion for the state museum. She told the committee that the temporary buildings behind the museum are not in good shape, and the museum needs to expand. She reported that the museum is the number-one place that tourists are encouraged to visit in Juneau. She stated that the museum is very important.

MS. DOLL informed the members that the Friends put an option on some land behind the museum and are working very hard to acquire it. The option expires soon, so there is a limited amount of time. She noted that the Friends have a great desire to secure the land. Once the land is secured, she imagines it as a state project whereby the people raise the money to put a building there. She encouraged the committee to support the bill.

REPRESENTATIVE FATE asked her if there are any strings attached to the purchase of the land, such as state requirements because it's a state museum.

MS. DOLL said there are no real strings attached to it, but inside the option, there is a promise that if there are any difficulties in terms of the land and cleanup due to the oil pipe that used to run across it, those will be taken on by the original owners.

REPRESENTATIVE FATE asked what the total purchase price was.

MS. DOLL answered that it was \$1.5 [million] for the property, with an additional \$400,000 to \$500,000 for design of the building.

Number 1420

REPRESENTATIVE JAMES asked if the construction plan included other things besides the museum and wondered if the entire plan had been presented to the legislature. She said she thought they needed to see the entire plan in order to make this commitment.

Number 1353

CLARK GRUENING, Lobbyist for Alaska Historical Society, Alaska Museums, and Friends of the Alaska State Museum, came forward to answer questions. He acknowledged that this would involve other agencies. The archive building has a deferred maintenance problem, and that is why it's tied into this bill. Money could continue to be spent to try to fix the roof and reattach the utilities that are being separated as the building moves, but the archive building itself is inadequate. It makes sense to have a combined facility for the archives and museum which need similar climate controls and apparatus to protect the priceless articles. He noted that another potential user is the historical library.

MR. GRUENING told the members that it would be a multipurpose building that would not only enhance the present use, but reduce future maintenance costs. He had worked with the company to get the option, and he confirmed that the option on the land was good until July 15.

REPRESENTATIVE JAMES expressed her support for museums. She said that the responsibility of the people to maintain the credibility of their history is very important. It saddens her that some of these things that are so important for future generations seem to take a back seat to some of the critical issues today.

REPRESENTATIVE FATE asked for an estimate of the total project without considering the land.

MR. GRUENING said there is an estimate, but it depends on which of the three elements are in it. The present building is about 34,000 square feet. If all three elements were included, the expansion would be another 70,000 square feet, and the cost would be between \$22 million and \$27 million.

MR. GRUENING informed the committee that the original museum building was built with sales tax that the City and Borough of Juneau dedicated to that building and a centennial grant of federal money secured in 1967; it is now 34 years old.

Number 1004

REPRESENTATIVE FATE expressed support for the efforts on behalf of the museums.

MR. MITCHELL responded to Chair Coghill that this is the first time pooling the buildings for security has been done in Alaska, but other states have done it. Consultation with the financial advisors and legal counsel indicated that there is no adverse impact on the state's ability to do this as far as a credit or legal structure goes, and it would actually enhance what normally would be a "leased-back" security.

CHAIR COGHILL wondered how the bonds would be protected in a case of mismanagement.

MR. MITCHELL answered that there is security in how the bonds will be spent. In a COP, there's title interest in the facilities that might be selected as collateral to a trustee. That trustee can intervene if there is a failure to make payment on behalf of bondholders and do something else with that facility to try to make the bondholders whole. In the event that the state failed to pay, that action would be taken. In response to the question regarding misuse of funds, that same trustee is responsible for ensuring that any funds spent are spent for an allowed purpose. Money couldn't be spent on a program that wasn't identified in the indenture.

MR. KREINHEDER explained that pooling hadn't been done before, not because there are problems with pooling, but because prior COPs, such as the Fairbanks courthouse, have been building-

specific. This is the first time multi-building financing has been done.

Number 0560

REPRESENTATIVE WILSON asked what the difference is between COPs and GO bonds.

MR. MITCHELL replied that a GO bond has to get voter approval and then the state gives a full-faith credit pledge that says it will do whatever it has to, within what it can do, to repay this obligation. It is the strongest pledge. For the State of Alaska that is a AA-2 credit. The COP is a "lease backer," subject to an annual appropriation debt, so it's a step down from that and is an A-1 rated transaction. While the COP is still state-supported, it doesn't have the same strength of pledge behind it. If there were a failure to appropriate, there would still be severe credit ramifications to the State of Alaska, but it wouldn't be required to pay other than the buildings that were involved (indisc.).

MR. MITCHELL answered Representative Wilson and said that there is a limitation to the extent that the state can borrow funds. Historically, it has tried to maintain the current credit rating, which was last revised in 1998. If Alaska borrowed too much, the credit rating could possibly be downgraded. Obviously, when the analysts look at the State of Alaska and Alaska says it has a fiscal gap, they are able to see on the balance sheet that there is in fact a fairly large sum of money available to the state one way or another, and they take that into consideration.

REPRESENTATIVE WILSON asked if the state was close to having that rating jeopardized.

MR. MITCHELL responded that he didn't believe so.

Number 0132

REPRESENTATIVE JAMES moved to report CSHB 364, version 22-GH2007\C, Bannister, 4/11/02, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 364(STA) was reported out of the House State Affairs Standing Committee.

SJR 38 - CONST AM: PRIORITY OF EXPENDITURES

Number 0043

CHAIR COGHILL announced that the last order of business would be SENATE JOINT RESOLUTION NO. 38, Proposing amendments to the Constitution of the State of Alaska relating to information regarding proposed expenditures.

WENDY HALL, Staff to Senator Pete Kelly, Alaska State Legislature, presented SJR 38 on behalf of Senator Kelly, sponsor.

TAPE 02-43, SIDE A
Number 0016

MS. HALL explained that SJR 38 will amend the constitution to have the governor submit his budget in a prioritized fashion. She said that the administration and the departments would be able to prioritize their services and workings of the department better than anybody else in this building because they're the ones that work in these positions day to day. This would be the most responsible way for the legislature to be able to make cuts within the budget, she stated.

Number 0163

JACK KREINHEDER, Chief Analyst, Office of the Director, Office of Management & Budget, Office of the Governor, came forward to testify. He told the committee that the administration does not support the proposed amendment. He said that the issue again is whether this rises to the level of a constitutional amendment. He indicated that the administration believes that this amendment is trying to do what was already included in HB 349. It passed the House and is in the Senate Rules Committee, and is poised to pass the legislature. It would call for what this amendment does in directing the administration to set out priorities. Assuming that bill passes, this amendment is not necessary, he commented.

MR. KREINHEDER stated that it comes back to the issue of cluttering up the constitution with language that may not be necessary. The administration's philosophy is it gives the legislature a budget that's its best effort at what services the people of Alaska need, and the legislature has full flexibility to reduce or increase state services. This priority budgeting is not really constructive in trying to reduce or manage the budget. The administration is concerned that things like administrative support would naturally fall to the bottom, but

if somebody isn't writing paychecks or paying the bills, then the whole operation is undermined.

Number 0437

REPRESENTATIVE JAMES said she isn't convinced that SJR 38 rises to a constitutional amendment. However, she supported the other piece of legislation [HB 349]. When she came to the legislature ten years ago, with her background in office management, business management, accounting, and consultation to small business, she believed that she had skills that would help make the government more efficient and the cost of government more effective. After three weeks, she found out that as a legislator, she could never do that because it is an administrative function.

Number 0560

REPRESENTATIVE JAMES said there is definitely a disconnect between the administration and the legislature on what the priorities are. She said that prioritizing would help the legislature be more effective in its decision-making process.

Number 0686

MR. KREINHEDER responded that he empathized with Representative James about the difficulty of coming here for four months and trying to get a handle on a \$7 billion budget. The administration recognizes the difficulty and tries to provide as much budget information as possible. The difficulty of prioritizing is trying to decide, for example, what's more important for the Department of Revenue: paying permanent fund dividends or collecting oil taxes? Both are very important. He said the administration feels that prioritizing a budget is not an effective approach and would take a lot of time that could be better spent on effectively managing government and coming up with a better budget.

Number 0850

SENATOR PETE KELLY, Alaska State Legislature, sponsor, came forward to answer questions.

Number 0860

REPRESENTATIVE JAMES restated her observation early on, as a legislator believing she could effect some efficiencies in

government, that that was not within her purview. She would have to be governor to do that. She commented about the distress over the years of trying to reduce spending and then having things not turn out in the way anticipated. She wanted to know what is wrong with the governor's doing a prioritized budget, because there have to be some things that are more important than others.

SENATOR KELLY said that he had the honor of constructing the capital budget in the Senate for the last two years. It was essentially a prioritized budget, and he commented that the process was so much easier. He pointed out that the capital budget is generally one-time funds. Sometimes not funding something from a one-time fund is less traumatic than the recurring funds, so it is easier for the administration to come forward with a prioritized budget, he commented. The budget wasn't officially prioritized, but it just worked out that way and led to better discussions. At the end of last year, both sides were satisfied with the results of the capital budget.

Number 1007

SENATOR KELLY reported that this year in the operating budget, the Alaska Department of Fish & Game came to Senator Kelly's committee with some recommendations. The department didn't want these recommendations, but in order to manage this budget, it wanted to be able to manage it on a prioritized basis. The department chose the projects to take out either because they were programs that the federal government could pick up, or not doing them wouldn't have dramatic effects on some of the other programs.

SENATOR KELLY agreed with Representative James's frustration. The legislature gets presented with a budget and has no insights into the budget, and there is no way to get those insights that the administration has. He suggested that the problem has been that in the last few years, there has been a real recalcitrance on the part of the administration to engage in those kinds of conversations. He said if the budget were laid out in a priority fashion, it would give the legislature the environment to get into the needed discussions so that the people's branch of the government could impact the budget in the way it wants. He said he thinks this needs to be a constitutional amendment just like the requirement of the budget itself is in the constitution.

Number 1375

REPRESENTATIVE JAMES agreed with the idea of a prioritized budget, but said she isn't sure it needs to be a constitutional amendment.

CHAIR COGHILL announced that SJR 38 will be held over.

ADJOURNMENT

Number 1475

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:56 a.m.