

SENATE FINANCE COMMITTEE
March 17, 2011
9:35 a.m.

9:35:18 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:35 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lesil McGuire, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Michelle Rizk, Associate Vice President, Budget, University of Alaska; Kit Duke, Associate Vice President, Facilities, University of Alaska; Linda Perez, Administrative Director, Division of Administrative Services, Office of the Governor; Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor

SUMMARY

SB 46 BUDGET: CAPITAL

SB 46 was HEARD and Held in Committee for further consideration.

#sb46

SENATE BILL NO. 46

"An Act making and amending appropriations, including capital appropriations and other appropriations;

making appropriations to capitalize funds; and providing for an effective date."

9:36:19 AM

Co-Chair Stedman asked the testifiers to introduce themselves, and requested explanation as to why the University President was not present at the meeting. He added that after the discussion of the three proposals, there would be a presentation related to the topic.

MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, BUDGET, UNIVERSITY OF ALASKA, introduced herself.

KIT DUKE, ASSOCIATE VICE PRESIDENT, FACILITIES, UNIVERSITY OF ALASKA, introduced herself.

Ms. Rizk stated that the president intended to attend the meeting, but he had a death in the family. Co-Chair Stedman understood the reason for the president's absence, appreciated the explanation, and expressed his condolences to the president's family.

9:37:22 AM

Co-Chair Stedman requested the presentation begin with item number 51679.

UNIVERSITY

Ms. Rizk stated that she would explain the three University projects that were included in the Governor's proposed budget. She furthered that Ms. Duke would discuss the University of Alaska (UA) Sustainment Funding Plan for UA Facilities (copy on file).

RN 51679

Annual Renewal and Repurposing
\$2,000,000.

Ms. Rizk explained that UA owned and maintained over 400 buildings, totaling 6.7 million gross square feet, with an adjusted value that currently exceeded \$2 billion. An additional amount of \$2 million for Annual Renewal and Repurposing was the first year of an effort to get to a property maintenance sustainment funding strategy, investing \$50 million annually to extend the life of older

buildings that would need major system replacements. With the ability to make capital investments annually, it would prevent a deferred maintenance backlog.

[9:39:01 AM](#)

Co-Chair Stedman noticed that the items were in order of campus, wondered how the projects would be prioritized according to need. Ms. Rizk replied that the distribution of funds would be based on the size and need of each campus.

Co-Chair Stedman wondered why the document showed a gap from \$2 million to \$50 million. Ms. Rizk replied that Ms. Duke would answer that question in detail later in her presentation. She summarized that that there was a request for \$25 million for the first phase of a two year phase to reach \$50 million. The annual investment is \$50 million, in order to keep facilities off of the deferred maintenance backlog.

[9:40:56 AM](#)

RN 43218
Federal Receipt Authority for Capital Projects
\$30,000,000.

Ms. Rizk stated that the request was an estimation of potential federal receipt authority needed to for FY 12 through FY 17 projects at the main and community campuses. The University was continuing to pursue federal funding sources and needed the ability to accept funding. Prior federal receipt authority was nearly exhausted due to Title III funding, thus addition federal receipt authority was necessary. Prior federal receipt authority received in FY 11 was used for projects such as the University of Alaska Southeast (UAS) Sitka Renovation of Career and Technical Education Renovation, and the University of Fairbanks (UAF) Interior-Aleutians Campus (IAC) Tok Harper Renovation.

[9:41:34 AM](#)

RN 45326
Deferred Maintenance and Renewal and Repurposing
\$37,500,000.

Ms. Rizk stated that the University owned and maintained over 400 buildings, totaling 6.7 million gross square feet, with an adjusted value that currently exceeded \$2 billion. The Deferred Maintenance and Renewal request provided funding to reduce the backlog of maintenance for those facilities. The current deferred maintenance backlog was upwards of \$800 million and funding was needed to reduce the backlog to a level that would lessen the amount of resource invested in emergency response, thus taking away from preventative maintenance work that could be easily accomplished annually. An investment of \$37.5 million each year for the next four years would enable the University to begin reduction the deferred maintenance and renewal backlog.

Co-Chair Stedman stated that the explanation of the Governor's University requests in the Capital Budget was now complete. There would be a presentation of the University maintenance concerns.

[9:42:51 AM](#)

Ms. Duke discussed the chart: "Sustainment Funding Plan for UA Facilities" (copy on file). She stated that the left side of the chart portrayed historic deferred maintenance. She furthered that that the information in green represented Deferred Maintenance Reduction. She explained that the bars represented the capital investment that the state had already made in Deferred Maintenance since 2006. She stressed that even though there was capital investment, the deferred maintenance backlog went from \$615 million to \$750 million. She stressed that there was still no breaking of the cycle of adding to the backlog, even with money that was invested over time. She stressed that President Gamble discussed a desire to stop the cycle of adding to the backlog. She stated that previously, the Board of Regents decided that the University would try to invest adequately in preventative and scheduled maintenance, and there would be investment in re-capitalization. She explained that re-capitalization was the money that was invested to extend the life of the building: roof, heating, and electrical system replacement. She furthered that the structure of a building will last much longer than the interior systems. The dark blue bars represented the M and R Annual Expenditures (Operating Budget). She stated that the light blue bar represented the R and R Annual capital expenditures. She explained that the red bars represented

the annual investment target shortfall. She stated that the University's attempt to stop the shortfall, there needed to be a \$200 million investment to fulfill the backlog needs. She stated that they were trying to establish a financial situation that would be satisfactory to live with. She stressed that there would be some emergency maintenance needs. The dark blue line represented the funding needed to maintain the buildings annually.

[9:48:00 AM](#)

Senator McGuire wondered if there was any application for the energy efficiency loans under SB 220. Ms. Duke stated that there was an application for the Energy Audit Funds, which was the first step in the application for energy efficiency loans. She stated that the application was turned in approximately two weeks prior. Senator McGuire stressed that there was about \$280 million in those funds.

Co-Chair Stedman commented that there would be refurbishing issues. He stated that there still could be financial challenges with bond investments. He cautioned the university in their investment and maintenance strategies. Ms. Duke stressed that they wanted to reassure the committee of their financial strategy.

Co-Chair Stedman pointed out that if the legislature does not provide the money for the University, the University would invest in bonds.

[9:51:32 AM](#)

AT EASE

[9:51:38 AM](#)

RECONVENED

Co-Chair Stedman welcomed testifiers from the Governor's office.

LINDA PEREZ, ADMINISTRATIVE DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, OFFICE OF THE GOVERNOR, stated that there was an item in the proposed budget for \$100,000 for the Division of Elections. This item would represent an additional Help America Vote Act (HAVA) Grant for voting accessibility state-wide. She stated that there was a corresponding transaction to the HAVA Grant request in

section 5-B of the bill: receipt of the federal money in the election fund to fund the HAVA Grant request.

Co-Chair Stedman declared that the committee might be able to provide funds for that request.

[9:53:42 AM](#)

Senator Egan wondered where the proposed voting places were going to be. Ms. Perez agreed to provide that information.

[9:54:34 AM](#)

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed section 4 of SB 46 (copy on file): Federal and Other Program Receipts. She stated that the three sub-sections had to do with the receipt of Federal or other funds that could be considered by Legislative Budget and Audit. She explained that there was some specific language that would allow state authorization to be reduced under sub-section B, if other funds were received. She furthered that sub-section C would limit the expenditures to the funds that are actually received.

Ms. Rehfeld explained section 5: Fund Capitalization. Sub-section A referred to the AGIA reimbursement fund, with a request of \$160 million. She stated that there was appropriation of \$185 million through FY 11. She stated that with the addition of \$160 million, there would be approximately \$345 million available for AGIA reimbursements.

Co-Chair Stedman stated that there was some discussion in the subcommittee process about AGIA, and desired to have further discussion.

[9:57:06 AM](#)

Co-Chair Hoffman queried the thought behind the revenue sources. Ms. Rehfeld replied that the Governor had proposed to use the Alaska Housing Capital Corporation Funds. She explained the about \$300 million had been set aside for the Alaska Housing Capital Corporation Fund, and there had been some discussion about whether or not the money had been set aside for gas line expenditures. She declared that the fund was considered Unrestricted General Funds.

[9:58:03 AM](#)

Co-Chair Stedman encouraged consideration for funding of the Alaska Housing Corporation Fund Source. He stated that the Fund was initially set aside in the event that there was substantial revenue short falls in the state. He stressed that since the setting aside of the funds, Alaska's financial situation had improved. He felt it was unnecessary to use that fund. He stated that fund held \$370 million, and would like to see the money moved over to the Statutory Budget Reserves. He felt that move would alleviate budgetary confusion.

[9:59:28 AM](#)

Co-Chair Hoffman stressed that the legislature had appropriated funds, so the legislature should determine how that money was used. He wondered if there was a desire to use the Permanent Fund for the project. Ms. Rehfeld responded no, they had not.

[10:00:20 AM](#)

Ms. Rehfeld discussed section 5-b, which was a request to appropriate \$100,000 in federal receipts into the Help America Vote Act Election Fund.

[10:00:32 AM](#)

Ms. Rehfeld stated that section 6 had two parts. Part A was a fund transfer of \$22 million into the Alaska Capital Income Fund. Part B was a fund transfer of \$25 million from the Alaska Housing Capital Corporation Fund for Renewable Energy Grants.

[10:01:17 AM](#)

Ms. Rehfeld stated that section 7 would authorize settlements from insurance claims to be deposited to the General Fund or specific state agency to mitigate loss. She furthered that the language was standard.

[10:01:40 AM](#)

Ms. Rehfeld explained that section 8 was for the National Petroleum Reserve Alaska Impact Grant Program, which was an annual program. She explained that the program estimated a

receipt of \$5.4 million for grants to communities that are eligible. She stated that DCCED had an annual grant program. She stressed that the amended budget included descriptions of the specific grants that were proposed for authorization in the FY 12 budget.

[10:02:20 AM](#)

Senator Egan pointed out an error on line 9. Ms. Rehfeld agreed.

[10:02:58 AM](#)

Ms. Rehfeld discussed section 9, and stated that the amended budget proposed to move this language to the operating budget. She stated that part B of section 9 was the balance of the Rail Belt Energy Fund, which was estimated to be approximately \$65.7 million for the Susitna Hydro-electric Project.

[10:03:41 AM](#)

Ms. Rehfeld explained that section 10 was for \$35,000 to Life Donor Alaska Services, which was a program that supports making anatomical gifts.

Co-Chair Stedman wondered if that item was normally added by the legislature. Ms. Rehfeld replied that it might be traditionally added by the legislature, and the administration had added the item for the legislature's consideration.

[10:04:14 AM](#)

Ms. Rehfeld stated that section 11 referred to the lapse provisions.

Ms. Rehfeld stated that section 12 stated that the effective date of the bill would be July 1, 2012.

[10:04:34 AM](#)

Senator Thomas looked at section 6, and queried the balance of the fund. Ms. Rehfeld replied that the balance was \$424 million in the permanent fund corporation.

[10:05:08 AM](#)

Co-Chair Stedman noticed that there were some potential additions and amendments to the capital budget, and wondered what the committee would be required to consider. Ms. Rehfeld replied that the administration had tried to minimize the number of submitted amendments following the thirty day statutory deadline. She stated that there would be some small supplemental amendments and stated that there would be some projects for the Department of Transportation and Public Facilities (DOT/PF).

Co-Chair Stedman stated that the committee had been made aware of the \$200 million for DOT/PF. He furthered that there was potential for substantial federal money coming to the state.

Co-Chair Stedman wondered if there were more capital amendments. Ms. Rehfeld stated that there was an amendment for the Health and Social Services electronic records upgrade, and the Department of the Administration's system replacement project. She furthered that there were some bargaining unit agreements that she hoped would be concluded at the end of the current month.

Co-Chair Stedman stressed that there was a concern of the spending level, and there was an issue of savings components. He stressed that there should be a robust savings in order to feel secure.

[10:10:27 AM](#)

Co-Chair Hoffman noted that the governor had made substantial increases from the year prior, and the legislature needed substantial efforts and energy concerning the budget.

[10:11:26 AM](#)

Co-Chair Stedman stated that there needed to be some focus on the enacted budget, and stated that the Governor had made an adjustment of approximately \$301 million. Co-Chair Hoffman furthered that the legislature made no modifications in the governor's budget in the year prior. He stated that there should more of a focus on savings.

Ms. Rehfeld stated that the governor was very supportive of the desire to put money in reserves.

Co-Chair Stedman reiterated that the legislature did not modify the governor's budget in the year prior.

Co-Chair Stedman hoped the dialogue with the administration about the budget would continue to be meaningful.

10:15:05 AM

Senator McGuire spoke of the anatomical gifts section of the language, and thanked the Governor for including it in the budget. She asserted that AGIA reimbursements had popped up throughout the budget. She requested an update from the Governor about what he felt was happening with AGIA.

10:17:22 AM

Co-Chair Stedman stated that he had similar concerns regarding AGIA. He stated that there was great concern over the viability of that piece of legislation. He stated that there was a request for a quarterly breakdown of past AGIA expenditures and reimbursements. He stated that there could be a special meeting on AGIA reimbursements. He furthered that that topic had been addressed in leadership meetings. He stressed that there was concern over the viability of that legislation. He also stressed that the legislature would like to get the gas to market.

10:21:03 AM

Senator Thomas commented that there was a constant issue of how there would be a change in oil taxation. He stated that there was some money and analysis of how long the state's savings would hold out in the future. Ms. Rehfeld stated that there was some internal work that represent spending discipline in managing the reserves, based on reinvestment before 2020.

Co-Chair Stedman hoped to look at the fiscal impacts of SB 46. He expected that the committee might take a different view of liquidating the state's hard earned savings. He stressed that the members would be very protective of the savings.

SB 46 was HEARD and Held in Committee for further consideration.

#

ADJOURNMENT

10:27:20 AM

The meeting was adjourned at 10:27 AM.