

HOUSE FINANCE COMMITTEE
May 8, 2017
1:34 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative Jason Grenn
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

Representative Neal Foster, Co-Chair
Representative David Guttenberg
Representative Scott Kawasaki
Representative Dan Ortiz

ALSO PRESENT

Adam Bryan, Capital Coordinator, Office of Management and Budget, Office of the Governor

PRESENT VIA TELECONFERENCE

Mark Davis, Director, Statewide Facilities Services Division, Department of Transportation and Public Facilities

SUMMARY

PRESENTATION: DEFERRED MAINTENANCE

Co-Chair Seaton addressed the meeting agenda.

^PRESENTATION: DEFERRED MAINTENANCE

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ADAM BRYAN, CAPITAL COORDINATOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, provided a PowerPoint presentation titled "State of Alaska Deferred Maintenance Overview: House Finance Committee" dated May 8, 2017 (copy on file).

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Mr. Bryan began on slide 2 and addressed "What is Deferred Maintenance?":

- Maintenance that is postponed due to lack of resources
 - Replacement of building components as they reach end of useful life such as roofs or HVAC systems
- Deferred maintenance projects are mostly items that entities cannot address through preventative maintenance
 - Preventative maintenance is important to managing growth and severity of future deferred maintenance
 - Each entity manages maintenance independently
 - Legislature appropriates funding for preventative maintenance annually - facilities management allocations; Public Building Fund
 - Maintenance decisions must consider changing business needs

Co-Chair Seaton asked whether there was a distinction between maintenance and preventative maintenance.

Mr. Bryan answered that they could be interchangeable. Deferred maintenance was something that exceeded the department's operating budget, or it could be outside of the expertise of the department's regular staff.

Co-Chair Seaton mentioned that Representative Pruitt had joined the meeting.

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Vice-Chair Gara asked whether deferred maintenance was defined by those things which were beyond repair and were causing further damage, such as in the case of a leaking roof causing damage to the interior of a building.

Mr. Bryan replied that was a good example. Preventative maintenance would highlight a leak in the roof. If that was not addressed, the underlying structure may rot, and accelerate the need to replace the roof. He suggest that as a metric it was probably rather subjective.

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Mr. Bryan turned to slide 3 titled "How many Facilities does the State Maintain?":

- Over 2,200 facilities
- 14 entities including University of Alaska and Courts
- 19 million square feet of space
- Combined replacement value of \$8.6B

Co-Chair Seaton asked to hold subject matter questions until the end.

Representative Pruitt asked for verification the 2,200 facilities on slide 3 were owned.

Mr. Bryan answered in the affirmative. He advanced to slide 4 titled "What do our Facilities Look Like?":

- Types of facilities vary by entity
 - DOA manages general office space
 - DOC and DHSS both manage 24 hour facilities
 - DMVA manages base facilities and statewide armories
 - DNR oversees park service cabins, shelters, fire suppression and preparedness shops

Mr. Bryan indicated the graph showed space owned by each department versus the number of facilities, and said the comparison could be made for other departments. He stated that the mission of an agency directly related to the amount of square footage it required to promote its

message. For example, the Department of Transportation and Public Facilities (DOT) had a series of maintenance stations, and the University had campuses with institutions where they taught or conducted research.

Representative Wilson wondered how DOT had the most facilities but appeared second in the graph.

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Mr. Bryan answered the two graphs showed the number of buildings and total square footage, respectively.

Representative Grenn asked whether airports came under DOT.

Mr. Bryan relayed DOT would be presenting the final part of the presentation but he did not believe so.

Co-Chair Seaton asked about how many facilities, such as sheds or storage, were under 1,000 square feet.

Mr. Bryan replied that he did not have a slide with the data.

Co-Chair Seaton noted they could get the data later.

Mr. Bryan turned to slide 5 titled "Statewide Deferred Maintenance Totals":

- Total of \$1.84 billion, including
 - Executive agencies and Courts - \$1.6 billion
 - School District Major Maintenance \$240 million; \$165 million as the State share
- Total peaked at \$2.3 billion in FY2012
 - Reduced significantly through a five-year funding plan
- Expect to trend up without consistent funding

Representative Wilson asked if it was based on bonds or on Regional Educational Attendance Area (REAA) schools, for which the state was largely responsible.

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Mr. Bryan responded there was a program called School District Participation in Grant Program in statute, where school districts could apply to the state to fund new construction for schools, or for major maintenance or deferred maintenance. The state would grant those undesignated general funds (UGF), therefore they would generally not bond for that.

Representative Wilson assumed the same group of projects could be utilized by bonding out for communities as well. She noted that communities had previously come [to the state] to receive free money versus bonding. She asked what the difference would be for communities with the ability to bond for the programs if necessary versus REAA schools that were without bonding authority.

Mr. Bryan would have to check with the Department of Education and Early Development (DEED) for the information. He did suggest that a school district could bond, and was not forced to participate in the state program.

Representative Wilson asked if there was a point at which DEED would say that a school could no longer participate and should employ the mechanism to bond.

Mr. Bryan said he would defer to DEED and that he did not think the department could force school districts to bond.

Representative Wilson stated they could not be forced to bond, but the department could remove them from the list.

Co-Chair Seaton replied there was a major maintenance list and the preceding year the school bond debt reimbursement was around \$120 million, of which \$96 million was UGF. He believed the Public School Trust was involved on the bond debt reimbursement side. The grant portion was for those that did not have the ability to bond as they did not have municipal owned buildings. The schools that were in municipalities could apply for the grants, but did not generally receive them, and generally had to bond. The governor had vetoed \$30 million, or 25 percent, of the bond debt reimbursement in the previous year.

Representative Wilson responded that her point was that there were some buildings for which the state was responsible in REAAs. The state helped out municipalities

when possible and perhaps the bonding came back. She asked whether the state's total financial responsibility might shift if it was only accountable for REAAs versus other municipalities that chose to be on the list, but could potentially have the ability to bond at some point.

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Mr. Bryan relayed that statewide deferred maintenance totals had peaked at \$2.3 billion in FY 12 and had since been reduced significantly through a five-year investment in deferred maintenance through the capital budget. He turned to slide 6 titled "FY2017 Deferred Maintenance Backlog by Entity." He indicated as long as deferred maintenance was not funded, the backlog would continue to increase. The pie chart on the slide showed the majority of deferred maintenance backlog was within the University of Alaska at 54 percent (\$1 billion), and DOT was at 19 percent (\$347 million). School district Major Maintenance requests total at 13 percent (\$240 million), and all other entities totaled 14 percent (\$252 million). Slide 7 included an additional chart showing the deferred maintenance backlog. He underlined that about 75 percent of the backlog was associated with the University and DOT.

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Mr. Bryan moved to slide 8 with a chart showing deferred maintenance funding history, broken out by statewide deferred maintenance and school district major maintenance. He had data going back to FY 98 for deferred maintenance and to FY 05 for school district major maintenance. The blue bar indicated statewide deferred maintenance and the red bar indicated school districts. Starting in FY 09, there was quite a bit of money going into the two programs, then FY 11 through FY 15 marked the period in which the five-year program was implemented.

Co-Chair Seaton asked whether he was referring to the \$100 million for five years to address deferred maintenance.

Mr. Bryan replied that the prior administration had committed \$100 million per year for five years in the capital budget. The actual figures exceed that amount, so the legislature had appropriated more. He pointed out that funding was sporadic, with large swings and spikes. He

turned to slide 9 and continued to address deferred maintenance history:

- From FY1998 to FY2010, DM funding was sporadic and inconsistent
 - Spikes in 1999 (\$53M), 2006 & 2007 (\$33M), 2009 (\$127M)
 - Low years 2000-2005 averaged \$6.5M
- FY2011 began a five-year initiative to address DM backlog
 - Gov initiative of \$100M annually for five years
 - Actual average funding of \$123M for DM; \$18.6M for School Districts

Mr. Bryan moved on to the deferred maintenance backlog on slide 10. There had been a rapid decline between FY 15 and FY 16. The chart showed a decreasing overall backlog because not all of the money appropriated was spent in that same fiscal year. It was typical for deferred maintenance allocations to be used over several years, as agencies began to line up for deferred maintenance projects. There had been a rapid increase in the size of capital budgets, and it took time for the agencies to prepare for those projects.

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Mr. Bryan moved to slide 11 and provided an example of the Department of Health and Social Services (DHSS) deferred maintenance management:

- Annual facility condition audit
- Projects are logged on an ongoing basis in a Capital Asset Management system
 - 4 project categories
 - Fire and Life Safety
 - Security
 - Building Integrity
 - Code Requirements and Mission Efficiency
 - Priority weight applied (high, medium, low)
 - Facility Condition Index factor
 - 24 hour facility factor

Mr. Bryan outlined the system for prioritizing projects. He gave the example of DHSS which had various facilities, such as the Alaska Psychiatric Institute, the Pioneers' Homes, and others, which needed to avoid total shut-down for maintenance as they ran 24 hours a day. The system gave agencies an objective way to rank projects.

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Co-Chair Seaton asked for information about the Facility Condition Index Factor.

Mr. Bryan answered that this addressed how much deferred maintenance was required over the value of the facility. The index would be very high if there was a lot of deferred maintenance built up. It gave an indication of the health of a given facility relative to other facilities.

Vice-Chair Gara asked if the University ranked deferred maintenance in the same way.

Mr. Bryan answered that each agency had its own way to determine deferred maintenance needs; this was only the example of DHSS. He moved to slide 12 and provided an example of school district major maintenance management:

- Eligibility Requirements: six-year district plan, fixed asset inventory system, property loss insurance, preventative maintenance and facility management program certified by DEED
- Applications evaluated on several factors resulting in an overall total points rating
 - o Condition survey
 - o District rating
 - o Weighted average age of facility
 - o Previous funding through grant program
 - o Complete planning and design
 - o Effectiveness of preventative maintenance program
 - o Emergency conditions and seriousness of life/safety and code conditions

Mr. Bryan remarked DEED had requirements for deferred maintenance for school districts. Points were awarded according to the requirements. Each school district would have its own priority, however the department aimed at understanding which projects were most urgent.

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Co-Chair Seaton asked about the condition survey and surmised each district would have to meet eligibility requirements to qualify for putting a project forward.

Mr. Bryan replied in the affirmative. He advanced to slide 13 titled "What We've Learned":

- Pattern of funding DM backlog coincides with years of high revenues
- The SLA 2010-2014 initiative reversed the trend of growing DM backlog
 - Gave entities predictability and confidence
- Without a consistent level of funding, entities cannot effectively execute planned renewal
 - Funding uncertainty leads to emergency only spending
- In a constrained fiscal environment a statewide approach provides DM attention to highest priority needs across multiple agencies

Mr. Bryan stated that uncertainty in funding led to emergency spending only. As the amount of funding dwindled, the agencies showed hesitation in spending.

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Mr. Bryan noted his portion of the presentation was concluded.

Co-chair Seaton suggested the committee hear questions regarding the current portion of the presentation before moving forward.

Representative Wilson asked about the overall capacity in each of the buildings and how much of it was being utilized.

Mr. Bryan answered that he thought that depended on each agency's information.

Representative Wilson did not understand how the issue was separate. She gave the example of the State Library Museum Archives (SLAM) building and its previous location in the State Office Building. She remarked that the previous space

seemed to be left unused. She asked which agency was responsible for that.

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Mr. Bryan replied the administration was trying to move towards a state-wide facilities maintenance program. He agreed that many agencies were independent. Some facilities were managed by Department of Administration (DOA) on behalf of other agencies, and there was quite a bit of overlap in the communication. Having a data set that was all-encompassing was desired, and more was on surveys for departments, but currently there was no aggregate system that every department used for tracking the information.

Representative Wilson thought the House Finance Committee should have the information. She asked if there was information regarding leases that became state-owned buildings, and if it was a department-by-department consideration.

Mr. Bryan responded that leases were managed by DOA. Lease costs had been increasing year after year and there had not been sustainable growth. Departments had been good at negotiating leases that did not cost as much, eliminating leases that occupied lease space or eliminating programs that occupied leased space. The lease space cost had been reduced from \$49.6 million to \$47.1 million projected, which put it in line with FY 12 numbers. In the DOA there was a leasing allocation, and there would be further reductions into FY 18 and beyond to drive down lease costs for the state.

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Representative Wilson asked Co-chair Seaton whether the intent was to further examine how many buildings were needed. She asked about the former State Library space and remarked there was a lot of room that the state was not currently utilizing. She asked whether those spaces could be consolidated, and asked whether they were renting.

Mr. Bryan answered that the 8th Floor of the State Office Building had contained library space which had moved to the SLAM facility. The DEED had a previous building which had been demolished. The DOA was working with multiple agencies to determine which department was the best fit for the

space. The department was attempting to reduce the need for lease space and to cancel more leases.

Co-Chair Seaton remarked that they would ask DOA for a report. He requested Mr. Bryan to coordinate with DOA to get that information to the committee.

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Vice-Chair Gara noted the desire for a revenue plan. He asked if there was a list of buildings and related costs for which funding certain facility work would result in more damage. He posited a capital budget to address only those buildings which were in most serious disrepair.

Mr. Bryan replied that it was possible to put a list together. Departments had thus far been asked to rate buildings in terms of life, health and safety, so they had evaluated projects with the scope only. There was a list by agency and it could be reprioritized.

Vice-Chair Gara hoped the funds would be available. He believed the Bethel Office of Children Services building was condemned. He asked Mr. Bryan to speak to this.

Mr. Bryan was unaware of the situation and would speak to DHSS.

Vice-Chair Gara stated he would like to receive an email regarding the plan for that facility.

Mr. Bryan would follow up immediately.

Representative Pruitt referred to 2,200 owned buildings and to leased properties. He believed there currently were fewer people working for the state. He asked whether there had been an evaluation of overall need for space.

Mr. Bryan asked whether he was speaking in terms of the deferred maintenance backlog.

Representative Pruitt spoke about lowering the cost of leasing and opening up opportunities to invest in deferred maintenance. He asked if they had found ways to be more efficient.

Mr. Bryan answered the cost of rent was an operating cost. Deferred maintenance was addressed in the capital budget. Savings did not automatically equate to an appropriation for deferred maintenance but creates an opportunity to lower cost or even arrive at net zero cost. There was not a mechanism where they would see a lower lease cost that translated to a deferred maintenance project unless it could be used in the same budget. The department had a fund source called Public Building Fund to make improvements to the facilities, and departments pay for it through DOA. There was not an upfront UGF cost in the capital budget, but it was borne by the operating budget for the agencies paying rent to DOA.

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Co-Chair Seaton aimed at clarifying the question. He thought Representative Pruitt was asking about negotiating contracts for lowering lease space and asking whether the state was getting out of lease space and moving to buildings which it owned.

Representative Pruitt was trying to ensure the correct amount of space for the needs of the state. He referred to a discussion on reduction in leases. He asked if they were potentially looking at situations where some space may not be needed. He wondered whether certain costs associated with a facility could be eliminated because that facility could be sold.

Co-Chair Seaton asked Mr. Bryan whether lease space cost \$49.6 and had been a reduction. The FY 18 had \$2.8 million less appropriated for leasing. He asked for confirmation that those were the figures.

Mr. Bryan replied in the affirmative. He detailed it was a combination of the two. They had gotten rid of leases and programs and had renegotiated lease prices. Mid-lease adjustments had also been done to lower costs. All of that activity lead to the decrement. He stated that currently there was overall savings of 184,000 square feet of property.

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Representative Pruitt asked if there was such a separation from capital budget items that there was not a way to

consider making reductions elsewhere. He explained that when he had gone to the University of Alaska, Anchorage, they had twice remodeled the commons. He was concerned there was not proper management of deferred maintenance. He asked how the facilities were being managed in the long-term.

Mr. Bryan did not have experience working for the University and did not want to speak for it. He did not believe there was a "disconnect" between capital and what was in a facility's operations budget. He underscored that the agencies were independent from one another and that was something the administration was attempting to address.

Representative Pruitt provided an example of a sprinkler system that needed to be replaced. He asked about keeping the system running even if it cost more than what was considered preventative maintenance, and whether there was maintenance on those systems while waiting for deferred maintenance to come through.

Mr. Bryan answered that it was a good example. Such things were a code violation if not maintained, and that there were probably facilities where the deferred maintenance far exceeded the value of buildings. Determining whether a project was worthwhile or whether there was better value in demolishing was a major issue for the department. He felt that the maintenance money was being spent very well.

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Co-Chair Seaton reminded members that most of the small maintenance was covered. However, larger maintenance costs would have to be appropriated by the legislature. He thought that there was still some money in the deferred maintenance budget but that it would be discussed in the capital budget hearings. He spoke to a comprehensive fiscal plan. He posed the question about doing deferred maintenance when the state had such a large deficit.

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Representative Wilson asked if the department or the legislature decided to sell assets.

Co-Chair Seaton would get the answer.

Vice-Chair Gara did not know if it was necessary to have a hearing on the topic. He thought it would be a good question for the commissioner of DOA.

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Representative Wilson confirmed that she was not asking for a separate hearing. She asked that when the legislature was looking at deferred maintenance monies. She wondering if it was smarter to have a lease or to pay into deferred maintenance. She asked who was responsible for making the call.

Co-Chair Seaton thought that consolidation and lowering leasing costs were contributing and they would talk to DOA.

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MARK DAVIS, DIRECTOR, STATEWIDE FACILITIES SERVICES DIVISION, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), spoke to slide 14 related to statewide facilities maintenance:

Timeline:

2015 - EFMAC* Creation & Recommendations

2016 - State Facilities Council Formed, Centralization Analysis Recommendation & Approval

2017 - Determination of lead agency for Centralized Facilities Services

- Advantages to centralized operations and maintenance of state facilities
 - o Enterprise approach
 - o One lead agency (DOT&PF)
 - o Economies of scale
 - o Commonality of processes, procedures
 - o Consolidate contracts
 - o Juneau Pilot - four waves thru 2017 (approximately 20 buildings) followed by expansion statewide

Mr. Davis relayed that the division was working towards centralizing facilities maintenance across most of the departments. The effort had begun in 2017 with the EFMAC [Executive Facilities Maintenance Advisory Committee]. This developed into a facilities council and subcommittees. The body had done a great deal of work towards analyzing the potential advantage to centralizing maintenance facilities

across the state. It was determined that DOT would be the central agency for that project, beginning with a pilot program involving around 20 buildings around Juneau. He thought taking an enterprise approach, finding economies of scale, consolidating contracts were part of the first wave of the Juneau pilot, the governance body would be consulted for key policy decisions.

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Mr. Davis noted that the scope of the effort did not include leasing activity, which remained with DOA. The issue of consolidating and perhaps closing and no longer renting was also outside of the project's scope.

Mr. Davis advanced to slide 15 titled "Opportunities Going Forward":

- Opportunity to comprehensively plan recapitalization of State buildings
- Starts with inspections to develop a Facilities Condition Index (FCI)
 - Provide holistic view of all state building assets
 - Baseline health of our assets; prioritize deferred maintenance needs
 - Analyze backlog of existing deferred maintenance items in relation to actual needs
- Develop a framework built on best practices: processes, procedures; provide data/metrics to measure progress
- Implement a common Computerized Maintenance Management System
- Assess risk and prioritize work
- Strive for a systematic funding program for major maintenance and system life cycle replacement—ensure consistency, predictability

Mr. Davis and spoke to the Facilities Condition Index. This element would be very important in determining the condition of buildings across the state. He was not aware of another department that had done that. The department was aimed at understanding where the problem set was and how to prioritize funding. Going forward it would be used

to learn lessons, adjust procedures, and increase efficiency.

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Mr. Davis addressed slide 16 and provided best in class state examples:

- Utah - Division of Facilities Construction and Management
 - Provides centralized facilities related services - maintenance, operations, design and construction to 200 plus buildings.
 - Facilities Conditions Indices (FCIs) renewed every 5 years per facility.
 - A computerized maintenance management system used to manage their portfolio, reactive and preventative maintenance and real estate management.
 - Deferred maintenance funding appropriated into the annual budget as percentage of the value of all state facilities
 - Key Performance Indicators are measured - FCIs, maintenance costs per sq. ft.
- Texas has benchmarked success as well

Mr. Davis provided Utah as an example. The state had used consolidated maintenance since the mid-1980s. Most of the state's policies in this area were in statute. Deferred maintenance funding was the percentage of the value of the property and was funded annually and therefore predictable. He turned to slide 17 titled "The Long View."

- Build on Successes of Juneau Pilot
- Advance in waves to bring in all state facilities
- Results-based reporting to investors, stakeholders, public
- Continuous improvement culture
- Best stewardship of public funds rooted in consistency and predictability

Mr. Davis indicated they were looking to build on the successes of the Juneau pilot. The aim was to advance in waves across the state. A key component was putting all of the maintenance in one database. Some departments did not have a maintenance management system. Others had inadequate

systems. For the state to implement the concept, the computerized management system would be necessary.

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Co-Chair Seaton referred to a question about when a facility was no longer worth the major maintenance. He asked if there was a cutoff where the facility index says to abandon maintenance.

Mr. Davis answered that once the index was completed, a decision like that would be brought before the facilities council and perhaps before EFMAC for review. It would require a lot of planning to move whatever function was in a given building and to ensure there was available capital funding.

Co-Chair Seaton pointed to the example related to Utah on slide 16. He asked whether, if there was not some dedicated funding going forward due to deficits, the system gave information but did not actually put the state on a pathway to getting the repairs done.

Mr. Davis believed that once operations commenced, they would be able to determine the need. He detailed that 2,000 or so buildings would not require maintenance, and storage sheds or other small buildings that would not have significant deferred maintenance. He thought there may be old buildings for which the department was underestimating the amount of deferred maintenance required. He was not currently able to answer the amount of deferred maintenance that the department needed. It would be managed by priority based on the building condition.

Co-Chair Seaton asked if there was a list of buildings that were under 1,000 square feet and related cost estimates.

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Mr. Davis did not believe the list had been compiled, but the department would do so and would follow up.

Co-Chair Seaton asked if there were costs associated with the Juneau pilot project.

Mr. Davis answered the primary cost was the computerized maintenance program, with estimates of \$350,000 to

\$400,000. The department was currently in the request for proposal and funding stage.

Co-Chair Seaton asked if the amount was the software and implementation component.

Mr. Davis replied in the affirmative.

Vice-Chair Gara asked whether there buildings that needed to be maintained and the current condition was costing more and asked whether there was an assessment of damage currently occurring.

Mr. Davis replied that he could not answer the question. They were at the beginning of implementing the program, initially with DOA and DOT. He imagined there could be some buildings in that category but could not currently answer.

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Co-Chair Seaton referred to slide 18 and asked if the governor's 10-year plan was looking at the pilot program or to the state-wide deferred maintenance plan.

Mr. Bryan replied that slide 18 was not related to Mr. Davis's portion. He clarified that there was an early estimate of \$70 million to \$90 million between school major maintenance and entity deferred maintenance. It was independent of statewide facility maintenance.

Co-Chair Seaton observed it was obvious there was a deferred maintenance problem in Alaska. There were considerations that needed to be made and if the budget deficit continued there would not be funding for deferred maintenance.

Co-Chair Seaton addressed the schedule for the following day.

Representative Wilson asked which bills the committee was hearing public comment on.

Co-Chair Seaton noted that if the bill had not been heard there would not be public comment.

Representative Wilson noted it was not listed. She requested the information for the entire week.

#

ADJOURNMENT

2:49:00 PM

The meeting was adjourned at 2:48 p.m.