

SENATE FINANCE COMMITTEE

April 19, 2017

9:01 a.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Shelley Hughes
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Adam Bryan, Capital Budget Coordinator, Office of Management and Budget.

PRESENT VIA TELECONFERENCE

Mark Davis Director, Facilities Shared Services, Department of Transportation and Public Facilities.

SUMMARY

^PRESENTATION: STATE OF ALASKA DEFERRED MAINTENANCE OVERVIEW

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ADAM BRYAN, CAPITAL BUDGET COORDINATOR, OFFICE OF MANAGEMENT AND BUDGET, discussed the presentation, "State of Alaska Deferred Maintenance Overview; Senate Finance Committee; April 19, 2017 Office of Management and Budget" (copy on file).

Co-Chair MacKinnon announced the individuals who were available for questions.

Mr. Bryan highlighted slide 2, "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

Mr. Bryan addressed slide 3, "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

Mr. Bryan discussed slide 4, "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 highlighted slide 5, "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

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Vice-Chair Bishop wondered whether the 5-year plan on the \$100 million per year spending for deferred maintenance that was enacted by Governor Parnell was still in effect. Mr. Bryan replied that the plan expired.

Senator Olson noted that slide 3 showed 16 facilities in the Department of Education and Early Development (DEED), and wondered where the schools were listed. Mr. Bryan replied that it did not include the school district facilities.

Senator Olson surmised that all the schools were not included in the graph. Mr. Bryan agreed.

Co-Chair MacKinnon looked at slide 5, and wondered if the \$165 million was the debt service. Mr. Bryan replied that school districts sent an application to DEED for a deferred maintenance item through the school district maintenance grant program. He stated that, depending on the size of the school district, it would put money toward that project.

Therefore, the number was the total based on the calculation provided by DEED of the local to state match through that program.

Co-Chair MacKinnon surmised that the state was obligated to match the grant funding. Mr. Bryan agreed.

Co-Chair MacKinnon asked for information about the debt service in major maintenance. Mr. Bryan agreed to provide that information.

Senator Micciche queried the processes that continued to reduce major maintenance. Mr. Bryan stated that the deferred maintenance projects lasted more than one year, so money was carried forward annually.

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Mr. Bryan displayed slide 6, "FY2017 Deferred Maintenance Backlog by Entity":

The majority of deferred maintenance backlog is within the University of Alaska (\$1B) and the Department of Transportation and Public Facilities (\$347M)

Senator von Imhof requested the difference between the main campuses and the rural hubs. Mr. Bryan agreed to provide that information.

Co-Chair MacKinnon queried other ways, besides repairs, that removed items from the major maintenance list. Mr. Bryan replied that replacement and closure might remove an item from the list. He agreed to provide specific examples.

Co-Chair MacKinnon remarked that a meat packing building was sold into the private sector, and remarked that there could be bridges that might be removed from the list.

Mr. Bryan continued to discuss slide 6:

School District Major Maintenance requests total \$240M

All other entities total \$252M

Mr. Bryan highlighted slide 7, "FY2017 Deferred Maintenance Backlog by Entity." He stated that it was a graph of the backlog by entity, and noted that the University was

approximately three times as large as transportation at \$346 million.

Co-Chair MacKinnon wondered whether the engineering building was included. Mr. Bryan did not believe that building would be considered deferred maintenance, and agreed to examine the power plant.

Vice-Chair Bishop wondered whether there would be a liability removed upon completion of the power plant. Mr. Bryan agreed to provide that information.

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Mr. Bryan addressed slide 8, "Deferred Maintenance Funding History; Statewide DM and School District." He stated that the slide may help to see the progress in spending the appropriations.

Senator Micciche remarked that the maintenance program had drastically increased over time. He felt that there was not enough information to address the real cause of the issue.

Mr. Bryan looked at slide 9, "Deferred Maintenance Funding 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 addressed slide 10, "Deferred Maintenance Backlog." He stated that the impact of the funding from 2011 reduced the backlog of major maintenance.

Mr. Bryan looked at slide 11, "Example of 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

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Mr. Bryan addressed slide 12, "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

Condition survey

District rating

Weighted average age of facility

Previous funding through grant program

Complete planning and design

Effectiveness of preventative maintenance program

Emergency conditions and seriousness of
life/safety and code conditions

Mr. Bryan looked at slide 13, "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

Vice-Chair Bishop remarked that combined factors
contributed to the problem, and hoped to be consistent in
reducing major maintenance.

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Senator von Imhof hoped to see a reflection of the price of
oil contributing to the cost of the major maintenance
backlog.

Co-Chair MacKinnon queried the space consolidation effort.
Mr. Bryan stated that the following slides would address
that issue. He stated that the Department of Administration
(DOA) had a leasing component, which had been reduced by \$2
million in FY 18.

Senator Micciche felt that the state was "over built." He
remarked that a large deferred maintenance list resulted in
new buildings, but could not determine affordability. He
queried a plan to address that affordability and state
ownership of building. Mr. Bryan agreed to provide that
information.

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Senator von Imhof requested an asset sale schedule.

Senator Micciche furthered that he would like to see a comprehensive plan.

Vice-Chair Bishop requested a total amount of lease space reduction.

Co-Chair MacKinnon stressed that there needed to be a geographical analysis of a project or building. She wondered who would address the Department of Transportation and Public Facilities (DOT/PF) portion of the presentation. Mr. Bryan replied that Mr. Davis would present the DOT/PF slides.

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MARK DAVIS DIRECTOR, FACILITIES SHARED SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), introduced himself.

Mr. Davis discussed slide 14, "Statewide Facilities Maintenance":

Timeline:

2015 - EFMAC Creation and 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

Enterprise approach

One lead agency (DOT&PF)

Economies of scale

Commonality of processes, procedures

Consolidate contracts

Juneau Pilot - four waves thru 2017
(approximately 20 buildings) followed by
expansion statewide

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Co-Chair MacKinnon queried the number of buildings in phase 1. Mr. Davis stated that the first phase was nine buildings, and the entire Juneau pilot was 20 buildings.

Co-Chair MacKinnon queried the reason for the pilot being in Juneau. Mr. Davis replied that much of the leadership was located in Juneau.

Vice-Chair Bishop requested a list of the nine buildings in the pilot project. Mr. Davis agreed to provide that information.

Senator Micciche wondered whether the state would retain ownership of the buildings. Mr. Davis replied that the facilities council conducted a comprehensive review of all state buildings. He stressed that the inclusion of the buildings was a result of extensive analysis.

Senator Micciche requested a proportion of buildings that may have been marked for disposition. Mr. Davis replied that he could share the plan, but could not share the proportion of buildings.

Co-Chair MacKinnon queried the goal of the pilot. She wondered whether the goal was consolidation, building surplus, or preserving current building. She stressed that there was a hope to reduce the footprint of the owned building. She announced that the state could not retain the number of owned buildings. She wondered whether there was an unknown issue within the program. Mr. Davis replied that the goal of the program was to consolidate the facilities, maintenance, and operation of the buildings. She understood that there was an issue about whether the state was "overbuilt."

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Co-Chair MacKinnon noted that the presentation was about building maintenance, rather than the cost. She was disappointed in that approach.

Senator Micciche agreed with Co-Chair MacKinnon. He remarked that many buildings were approved in times of surplus state revenue.

Senator Olson queried the percentage of federal money that initially built the airport maintenance facilities. Mr. Bryan agreed to provide that information.

Vice-Chair Bishop shared that a building in his district was recently replaced.

Co-Chair MacKinnon understood that there were a large number of transportation buildings, and felt that it was important to evaluate the importance of every building.

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Mr. Davis looked at slide 15, "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 addressed slide 16, "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 discussed slide 17, "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

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Senator Olson looked at slide 8, and wondered whether the funding was authorized or the amount of deferred maintenance that remained on the list. Mr. Bryan replied that it was appropriations provided by the legislature to address deferred maintenance.

Senator Olson surmised that it was authorized funding.

Senator Micciche looked at slide 16. He noted that all industries were in a computerized maintenance management system (MMS) by 2005. He wondered whether the state equipment fleet was in a computer MMS. Mr. Davis replied that there were several computer MMSs in use in the state. He stated that some were new, some with contracts that were set to expire, and some with varying range user satisfaction. He remarked that there was an attempt to put all buildings into the same computerized MMS.

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Mr. Bryan highlighted slide 18, "Future Considerations":

The Governor's 10 Year Plan includes \$70M-\$90M combined funding level for DM and School Maintenance.

DM should be a primary component of a GO Bond package

DM funding has strong local and in-state economic impact

DM distribution considerations based on objective rating system to address most critical projects statewide

Constant attention to Preventative Maintenance required

Senator von Imhof looked at the second bullet. She queried the current capacity, current bond payoff schedule, and how a new bond plan would be integrated. She wondered whether the governor's plan was in addition to the federal match. Mr. Bryan agreed to provide information.

Co-Chair MacKinnon announced that the state bond debt capacity over the following five to ten years was \$50 million to \$100 million. She stressed that the payoff was high, and the current payments were also high. She remarked

that deferred maintenance typically exceeded the life cycle of a bonding process. She asserted that the governor's plan did not meet the per year deferred maintenance cost. Mr. Bryan stated that the first bullet addressed an annual level of funding in a ten year plan.

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Senator von Imhof stressed the challenge of prioritization with limited UGF funds. Mr. Bryan agreed.

Co-Chair MacKinnon remarked that there was an issue of leveraging federal funds.

Senator Micciche understood that there was an issue with remote facilities.

Vice-Chair Bishop requested a list of the sold state assets.

Senator von Imhof stressed that there should be a consideration of the cash flow change by changing ownership of a building.

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Senator Micciche stressed that a comprehensive evaluation would remove data.

Senator Hughes requested on the focus of the \$1 billion deferred maintenance backlog.

Co-Chair MacKinnon discussed the committee process related to deferred maintenance.

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ADJOURNMENT

[10:16:52 AM](#)

The meeting was adjourned at 10:16 a.m.