

SENATE FINANCE COMMITTEE
January 26, 2018
9:05 a.m.

[9:05:04 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Donny Olson
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair

ALSO PRESENT

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

PRESENT VIA TELECONFERENCE

Mark Davis, Department of Transportation and Public Facilities, Anchorage; Chris Hodgins, Department of Transportation and Public Facilities, Anchorage.

SUMMARY

^PRESENTATION: DEFERRED MAINTENANCE

[9:06:20 AM](#)

ADAM BRYAN, CAPITAL BUDGET COORDINATOR, OFFICE OF MANAGEMENT AND BUDGET, introduced himself.

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

CHRIS HODGIN, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, ANCHORAGE (via teleconference), introduced himself.

Mr. Bryan discussed the presentation, "State of Alaska Deferred Maintenance Update Senate Finance Committee" (copy on file).

highlighted slide 2, "What is Deferred Maintenance?"

- Maintenance that is postponed due to lack of resources
 - Keep assets in safe, effective, working condition
- 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 highlighted slide 4, "What do our Facilities Look Like?"

- Types of facilities vary by entity
 - UA manages classroom, laboratory, research, residential, and office space
 - DOA manages general office space

- o DOC and DHSS both manage 24 hour facilities
- o DMVA manages base facilities and statewide armories
- o DNR oversees park service cabins, shelters, fire suppression and preparedness shops

Senator Stevens wondered whether the Department of Transportation and Public Facilities (DOTPF) request included the Marine Highway System. Mr. Bryan replied that the terminals were included, but not the actual ferries. He believed that there were currently ten ferries.

Senator Stevens surmised that it was not included in the presentation. Mr. Bryan replied that it did not include the ferries. He stated that it only included the structures for the marine highway system.

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Mr. Bryan discussed slide 5, "Statewide Deferred Maintenance Totals":

- Total of \$1.87 billion, including
 - o Executive agencies and Courts \$1.66 billion
 - o School District Major Maintenance \$205.6 million;
 - \$142.9 million as the State share
 - Agency DM total is comprehensive
 - School Major Maintenance total are only district's highest priorities

Senator von Imhof noted that the school district leased the headquarters in order to not pay for maintenance. She recalled that money would be set aside for deferred maintenance when she served on the Anchorage School Board. She noted that it was standard to bond for that deferred maintenance, and hope for a state match. She wondered whether there was work with school districts to set money aside for deferred maintenance. She asked about selling asset and then leasing those assets back to the school district. Mr. Bryan agreed to provide information.

Senator von Imhof stated that question would extend statewide. She noted that DOTPF was referenced on slides 3 and 4, and had access to assets. She remarked that some of those assets quickly depreciated. She asked whether the assets could be sold in DOTPF, and reallocating those funds to the more prioritized buildings. Mr. Bryan replied that

DOTPF had state equipment fleet schedules, so the non-structure assets would have replacement schedules.

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Senator von Imhof noted that companies evaluated circumstances about cash flow when determining between a purchase or a lease. She remarked that the state chose to own most of the assets. She noted that a paradigm shift in a financial situation may result in change to leasing rather than buying.

Co-Chair MacKinnon asked that the director of the Office of Management and Budget provide a preventative list of the ongoing maintenance in the operating budget, and someone from the Department of Administration (DOA) could address the overall look at the financing structure.

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Senator Micciche stated that he had continually asked the same question as Senator von Imhof. He wondered how to encourage DOTPF to examine which assets could be put for sell to have a reset about the collection of real estate that had been gathered throughout the year. Mr. Bryan replied that there was work on some metrics based on a facility condition index to move statewide.

Senator Stevens echoed the comments of Senator von Imhof and Senator Micciche. He noted that he had worked to build a new DOTPF building in Kodiak, but noted that the state still owned the old DOTPF building.

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Vice-Chair Bishop noted that as time evolves we discover different ways of doing things.

Senator von Imhof felt that each property had a unique story, but the legislature was being asked to consider a tax for deferred maintenance.

Senator Micciche echoed the comments about selling assets.

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Co-Chair MacKinnon stressed that there was limited time in the committee meeting.

Co-Chair MacKinnon asked for a list of preventative maintenance in the operating budget for each department for ongoing maintenance. Mr. Bryan agreed to provide that information.

Co-Chair MacKinnon queried how each department determined their estimates of deferred maintenance. Mr. Bryan replied that he would provide that information.

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Mr. Bryan continued to discuss slide 5:

- Total peaked at \$2.3 billion in FY2012
 - Reduced significantly through a five-year funding plan
- Beginning to trend up

Mr. Bryan addressed slide 6, "FY2018 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 (\$302M)
- School District Major Maintenance requests total \$206M
- All other entities total \$300M

Mr. Bryan discussed slide 7, "FY2018 Deferred Maintenance Backlog by Entity." He noted that the University was at a little over \$1 billion; and the list drops to transportation and school major maintenance from the previous pie chart.

Co-Chair MacKinnon wondered whether power generation was included in the maintenance. Mr. Bryan replied that the new power plant would be included, if it was an older asset with some deferred maintenance.

Co-Chair MacKinnon wanted information about the system itself.

Senator Stevens wondered whether UA had their own prioritized list of maintenance. Mr. Bryan replied in the affirmative.

Senator Stevens wondered why there was not a prioritization for the University projects. Mr. Bryan replied that the requests from the school districts were considered the school district's highest priorities. He stated that the University subset of the \$1 billion was \$50 million requesting for FY 19.

Co-Chair MacKinnon noted that the school district maintenance would be much higher, if all the district's requests were included.

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Mr. Bryan highlighted slide 8, "Deferred Maintenance Funding History":

- From FY1998 to FY2010, DM funding was sporadic and inconsistent
 - Spikes in 1999 (\$53M), 2006 and 2007 (\$33M), 2009 (\$127M)
 - Low years 2000-2005 averaged \$6.5M
- FY2011 began a five-year initiative to address Mr. Mitchell 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 9, "Deferred Maintenance Funding History Statewide DM and School District."

Co-Chair MacKinnon wondered whether the school district assets included those owned by local municipalities. Mr. Bryan replied in the affirmative.

Mr. Bryan displayed slide 10, "What We've Learned and A Plan Forward":

- 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

Co-Chair MacKinnon wondered whether a change in administration may change the output of deferred maintenance numbers, and to take that into consideration in the review of the numbers. Mr. Bryan replied in the negative.

Co-Chair MacKinnon stated that she had seen much higher numbers related to the categorization of deferred maintenance. She noted that the previous administration showed deferred maintenance of up to \$4 billion. She was skeptical of the assertion that there was an increase in deferred maintenance.

Mr. Bryan highlighted slide 11, "Deferred Maintenance Backlog." He noted trend line of steady decrease.

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Mr. Bryan looked at slide 12, "Alaska Economic Recovery Act Plan":

- Separate capital appropriation - SB140
- Funded by a 1.5 percent wage tax, sun setting after 2.5 years -

SB139

- 3-year plan to address the growing maintenance liability; put Alaskans back to work
- Statewide Agency; UA, and Courts DM:
 - \$113M in FY19; \$106M in FY20; \$94M in FY21
- School District Major Maintenance:
 - \$40M in FY19 and FY20; \$38M in FY21

Co-Chair MacKinnon wondered whether the school district major maintenance was for all schools through a formula, or was it based on applications. Mr. Bryan replied that it was proposed that the money be appropriated into the major maintenance fund. Therefore, DEED would utilize their

prioritization process to fund down the prioritized list based on the amount of appropriations in the fund.

Mr. Bryan looked at slide 13, "FY2018 Statewide Appropriation Status":

- SB23, FY2018 Capital, funded \$20M in statewide Deferred Maintenance
- Distributed across 8 agencies, prioritizing:
 - Life, health, and safety
 - Assets at risk of imminent failure
 - Timely project execution
 - Maintenance to space to meet program mission with demonstrated return on investment

Mr. Bryan highlighted slide 14, "FY2018 Statewide Appropriation Status":

- 41 projects across the 8 agencies
- Common projects include roof replacements; fire and sprinkler replacements; sewer and water repairs

Vice-Chair Bishop asked whether he said sewer water repairs. Mr. Bryan replied in the affirmative.

Senator Micciche looked the document, "FY18 Mr. Mitchell Distribution Detail", and stated that third from the last was the facilities condition index with \$300,000 budget.

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Co-Chair MacKinnon explained that the list referred to was the funded list from the administration in 2018.

Mr. Davis discussed slide 15, "Statewide Facilities Maintenance":

Timeline:

2015 - EFMAC Creation and Recommendations

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

2017 - Determination of lead agency for Centralized Facilities Services

- Advantages to centralized operations and maintenance of state facilities
 - One lead agency (DOT/PF)
 - Commonality of processes, procedures

- o Consolidate contracts
- o Juneau Pilot - four waves thru 2017 followed by expansion statewide

Mr. Davis looked at slide 16, "Opportunities":

- Plan deferred maintenance of facilities in a deliberate, comprehensive manner
- Starts with inspections to develop a Facilities Condition Index (FCI)
 - o Provide holistic view of all state building assets
 - o Baseline health of our assets; prioritize deferred maintenance needs
 - o Analyze backlog of existing deferred maintenance items in relation to actual needs
- Develop a framework built on best practices: procedures; provide data/metrics to measure progress
- Implement a Computerized Maintenance Management System (CMMS)
- Strive for a systematic funding program for major maintenance and system life cycle replacement

Mr. Davis addressed slide 17, "Deferred Maintenance Strategy":

The Vision: Establish an effective, continuous, transparent and results based program of accomplishing facilities deferred maintenance (DM) projects through:

Objective assessment and uniform analysis of existing conditions and DM needs.

- Structured, consistent and predictable means of prioritizing and selecting DM projects.
- Results based, measurable Key Performance Indicators and reporting to show progress on project execution, facility improvement and return on investment.

Mr. Davis highlighted slide 18, "Assessing Conditions and Needs":

Objective and data driven approach to assess conditions and comprehensively plan for recapitalization of state building assets:

- Begin with Facility Assessments to develop Facilities Condition Indexes (FCIs) for each facility:
- Measure conditions based on uniform criteria
- Also Incorporate:
 - Building Safety Category Factor (Sf) (to be further refined and developed - perhaps weighted)
 - Departmental Building Mission Critical Factor (Mf) (to be further refined and developed)
 - Other possible additional factors

Mr. Davis discussed slide 19, "Way ahead":

- Build on Successes of Juneau Pilot
- Advance in waves to bring in all state facilities
- Results-based reporting to investors, stakeholders, public
- Assess facility utilization
- Stewardship based on consistency and predictability

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Co-Chair MacKinnon asked for more understanding on assessing conditions and needs in regards to placing assets in different categories for retention or deployment into the private sector.

Mr. Bryan looked at slide 20, "Future Considerations":

- The Governor's Economic Recovery Plan addresses the State's growing maintenance liability over a three year period
- DM distribution considerations based on objective rating system to address most critical projects statewide
- Constant attention to Preventative Maintenance required

Co-Chair MacKinnon discussed committee business.

#

ADJOURNMENT

[9:57:33 AM](#)

The meeting was adjourned at 9:57 a.m.