

HOUSE FINANCE COMMITTEE

April 17, 2019

9:00 a.m.

9:00:06 AM

CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 9:36 a.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Tammie Wilson, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon  
Representative Kelly Merrick  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Chief Budget Analyst, Office of Management and Budget, Office of the Governor; Shelly Willhoite, Program Budget Analyst, Office of Management and Budget, Office of the Governor; Laura Cramer, Deputy Director, Office of Management and Budget.

PRESENT VIA TELECONFERENCE

Mark Davis, Division of Facilities Services, Department of Transportation and Public Facilities.

SUMMARY

HB 38        APPROP: CAPITAL BUDGET

HB 38 was HEARD and HELD in committee for further consideration.

Co-Chair Wilson reviewed the meeting agenda.

#HB38

HOUSE BILL NO. 38

"An Act making appropriations, including capital appropriations, supplemental appropriations, reappropriations, and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

9:01:08 AM

NEIL STEININGER, CHIEF BUDGET ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself.

SHELLY WILLHOITE, PROGRAM BUDGET ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself.

Co-Chair Wilson indicated Mr. Davis was online.

Ms. Willhoite introduced the PowerPoint Presentation: "Deferred Maintenance Update" (copy on file). She indicated she would review the status of the state's deferred maintenance and the state's balances. Mr. Steininger would review some history and how the state planned to use the recommended deferred maintenance monies in the budget. Mr. Davis would provide an update on the Division of Facilities Services, and how they planned to use a new system to manage deferred maintenance statewide.

Ms. Willhoite began with slide 2: "Deferred Maintenance: Explained." She explained that deferred maintenance was maintenance or repairs deferred to a future budget cycle or postponed until funding was available. Preventative maintenance was handled within the operating budget. She explained that when preventative maintenance could not be completed and things fell into disrepair, projects were moved into the deferred maintenance category. Projects were most often items that could not be addressed through preventative maintenance. She asserted that preventative maintenance was key to preventing items from falling into the deferred maintenance category.

Ms. Willhoite continued that the legislature appropriated money for preventative maintenance annually through the operating budget through facilities management allocations and the public building fund. She reported that when deciding about maintenance, changing business needs were taken into consideration.

Ms. Willhoite moved to slide 3: "Deferred Maintenance: State Maintained Facilities." Currently, the state had about 2,200 facilities statewide. The facilities encompassed 14 entities including the University of Alaska and the Court System. The state had about 19 million square feet of space with a combined replacement value of approximately \$8.6 billion. The chart provided a visual of the number of facilities broken down by department. The Department of Transportation and Public Facilities (DOT) had the largest number of facilities followed by the University. The Department of Environmental Conservation had only one facility.

Ms. Willhoite turned to slide 4: "Deferred Maintenance: Facility Types." She reported that facility types varied by entity. For example, the University had classrooms, libraries, dorms, and office space. Whereas, the Department of Administration had mainly office space. The Department of Corrections and the Department of Health and Social Services had 24 hour facilities such as the Pioneer Homes, and prisons. The Department of Military and Veterans Affairs had military and other types of facilities and armories. The Department of Natural Resources oversaw park service cabins, shelters, and other types of shops. The chart provided a look by square feet by entity. She highlighted the University and DOT having the largest number of total square feet. Although the University had a fewer number of facilities, it had a greater number of square feet.

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Co-Chair Wilson asked if OMB was taking into account buildings rented by the state. Ms. Willhoite replied the numbers only represented facilities owned by the state.

Co-Chair Wilson asked how many buildings or the number of square feet the state rented. Ms. Willhoite would provide the information.

Vice-Chair Ortiz asked about the category for the capitol building. Ms. Willhoite responded that the capitol building was currently under the governor's office. The governor's office had the capitol building and the governor's mansion which were state-owned.

Co-Chair Wilson commented that the legislature maintained the building. She thought that if the governor owned the capitol building, he should maintain it. She was new to Legislative Council and was curious. Ms. Willhoite would have to get back to her.

Vice-Chair Ortiz thought it was strange, with a separation of powers, that the governor would own the capitol building. Co-Chair Wilson thought the issue might need further review. Ms. Willhoite commented that it was on the list for the governor's office. However, she would confirm ownership of the building.

Co-Chair Wilson was under the impression that the legislature owned the building and was allowing the governor to occupy it. She thought it was possible for it to be the other way around. She thought clarification was important in terms of the budget.

Ms. Willhoite continued to slide 5: "Deferred Maintenance: Statewide Totals." She reported the total current deferred maintenance balance was \$1.98 billion which included \$1.85 billion from the executive agencies and the Court System. Major school maintenance was \$134.7 million. She noted that the school major maintenance reflected only the districts' priorities. School districts did not provide their full maintenance list. She continued that of the \$134.7 million, \$113.8 million was the state's share of the total.

Co-Chair Wilson asked how the state's share was \$113.8 million. Mr. Steininger would get back to the committee with a response.

Representative Carpenter asked if the state requested the school districts' full list of deferred maintenance projects. Ms. Willhoite explained that school districts use to provide their full list. However, because they were only partially funded, school districts found it was a better use of time to prioritize the list and only provide the most important items. She offered to request a full list.

Representative Carpenter thought that if the legislature was deciding on funding for deferred maintenance, legislators should be provided with the full list of projects.

Co-Chair Wilson was concerned with additional burdens being placed on school districts.

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Representative Carpenter would like to see how projects were being prioritized.

Vice-Chair Johnston asked if the deferred maintenance applied to all school districts that were outside of organized boroughs. She wondered if it applied to state schools funded by state construction. She thought the figure was a low number. She did not think they applied to districts such as the Anchorage School District, the Mat-Su School District, or the Fairbanks North Star Borough School District. Ms. Willhoite could provide the project details that made up the \$134 million. She was aware that Mount Edgecumbe and the Anchorage School District were included.

Representative Knopp thought school districts owned their own buildings and that the figure encompassed Mount Edgecumbe and the Alaska Vocation Education and Technical Center (AVTEC). He would appreciate a full list.

Co-Chair Wilson indicated that all schools could apply for monies for deferred maintenance. She explained that the state provided grant money every year. Every school district could apply for funds. It was based on the largest need. She advised looking at the list on the Department of Education and Early Development's website. If the legislature appropriated \$10 million, the money would be applied to the priority list as far down as possible. The following year priorities would be reshuffled, and another amount appropriated and applied based on priority. Many of the school districts making a request for monies were small and without the ability to bond.

Representative Josephson commented about school bond debt reimbursement, much of which was for new construction in the amount of \$140 million for FY 19. He wanted to know the definition for major maintenance.

Vice-Chair Ortiz commented that the bonding process in relationship to schools was something separate from the appropriation Co-Chair Wilson just spoke of. Co-Chair Wilson responded, "Correct." She elaborated that it was a grant for the total project and school districts could also bond.

Representative Knopp thought a grant for a deferred maintenance request was not the same as the state having a deferred maintenance project. He believed grants were based on available funding. Co-Chair Wilson explained that the state had a school maintenance fund for schools only. For buildings owned by the agencies, funding was not available under major maintenance grants.

Ms. Willhoite continued with slide 5. She reported that the total peaked at \$2.3 billion in FY 2012. There was an initiative from the administration to significantly reduce the deferred maintenance by initiating a 5-year plan where they funded at least \$100 million per year for 5 years. As a result, the deferred maintenance dropped. The low was \$1.6 billion in FY 17. Since then, the trend moved up as the deferred maintenance allocations decreased.

Co-Chair Wilson asked how much money had been set aside for deferred maintenance since FY 11. Ms. Willhoite responded that it averaged about \$123 million for 5 years.

Ms. Willhoite moved to slide 6: "Deferred Maintenance: Backlog by Entity." The slide showed a different visual perspective of the deferred maintenance backlog. The majority of deferred maintenance was for the University of Alaska totaling \$1.2 billion. The Department of Transportation and Public Facilities was high on the list at \$320 million. The school district maintenance requests totaled \$135 million and all other entities totaled \$300 million.

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Co-Chair Wilson asked whether the state or the University was responsible for the University buildings. Mr. Steininger answered that the University was responsible for its buildings. However, it was part of the executive branch and was the reason for their inclusion in the executive branch totals.

Co-Chair Wilson asked if the state currently had a priority list for the University. Mr. Steininger responded affirmatively. Co-Chair Wilson wanted to see the information.

Vice-Chair Johnston asked if the state evaluated whether it was worth doing deferred maintenance on a building. Ms. Willhoite responded that another slide would show the changes being implemented by looking at the facility condition index. More detail would be provided when the slide was up.

Ms. Willhoite discussed the graph on slide 7: "Deferred Maintenance: Backlog by Entity." she pointed to the bar chart which allocated each of the backlogs by entity. The University and DOT made up the largest portions.

Mr. Steininger advanced to slide 8: "Deferred Maintenance: Funding History." He would be reviewing the funding history of deferred maintenance and the reasons behind the proposal put forward in the governor's budget. He explained that from 1998 to 2010 deferred maintenance funding was sporadic and inconsistent. It was allocated to specific departments for specific projects. He pointed out a spike in 2009 of \$127 million and lows of \$6.5 million in 2000-2005. The time period built up some of the backlog. In 2011 a 5-year initiative was started to appropriate \$100 million annually for 5 years to try to address the backlog to bring it down.

Mr. Steininger turned to the chart on slide 9: "Deferred Maintenance: Funding History." It highlighted the sporadic highs and lows in the past. The 5 years in which higher appropriations for deferred maintenance were awarded could be seen on the chart. The higher appropriations had a significant effect on the backlog. It provided some reliability because of a plan being in place. It allowed the department to plan ahead for the deferred maintenance needs and to address the issue in less of an ad hoc manner and more of a deliberate manner.

Mr. Steininger advanced to slide 10: "Deferred Maintenance: Backlog (excluding school major maintenance." He pointed out the trend of the backlog dropping over 5 years because of the higher levels of funding. He also highlighted the lag as the projects were being completed and the return of a backlog. The state ended up reversing the positive trend

it had entered into. He advocated for a deliberate plan for deferred maintenance.

Co-Chair Wilson asked why it was not until the present that the state was deciding to implement a plan. Mr. Steininger thought the state had always known it needed a plan. He reported that the end of the 5 years of funding coincided with significant revenues for the state. He suggested that in leaner times the concerted effort dropped off.

Co-Chair Wilson asked in 5 years whether the state moved out or sold any of its buildings. She wanted to see the chart separated into one chart showing only the University and another with all of the other state buildings. She asked if the state had sold any of its buildings due to the backlog. Mr. Steininger indicated Mr. Davis would be speaking to the divestment of buildings. He was aware that Department of Military and Veterans Affairs had divested in some armories and a couple of other buildings that had come off of the books. Mr. Davis would also discuss a property disposal workgroup that was started to look further into the state's portfolio of assets and what might need to change. The idea was to get rid of some of the backlog without appropriating money to it.

[9:20:19 AM](#)

Mr. Steininger continued to slide 11: "Deferred Maintenance: What We Have Learned and a Plan Forward." He pointed out that the pattern of funding coincided with high years of revenue. It also reversed the growing trend of the backlog when the state had a plan that was followed. He also noted that a consistent reliable level of funding that departments could count on allowed for better decisions to be made. He also pointed out that in looking at the past was that much of the deferred maintenance was directed to specific projects or to specific agencies. There was not flexibility to manage it holistically at a statewide level. about two years prior the administration started appropriating deferred maintenance to the Office of the Governor and then distributing the funds looking at the facilities altogether. It was the start of the process of moving towards the Division of Facilities Services. It allowed a look at the projects across agencies rather than in a vacuum.

Co-Chair Wilson asked if a priority list had been developed. Mr. Steininger responded that each department had a priority list. Each department had slightly different criteria that they applied to their assets and building. He spoke of the intricacies of managing different types of facilities. The idea was to try to get every state facility looked at through the same lenses and the same standards in order to prioritize the state's limited deferred maintenance money adequately across all of the agencies.

Co-Chair Wilson asked when legislators would know how the money would be spent, if it were to give the governor's office \$25 million. Mr. Steininger responded that in the prior year the department began working on the list and had it out in mid-July. In an upcoming slide he had the lists by agency. He could also provide detailed backup about how the state allocated the \$25 million in FY 18 and FY 19. He suggested that as the Division of Facilities Services matured as an organization, the information would be available sooner rather than later. Co-Chair Wilson commented, "It would be hard without a plan."

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Mr. Steininger reviewed slide 12: "Deferred Maintenance: Alaska Capital Income Fund." He maintained that one of the key pieces in planning was reliability and knowing a source of funding while in a constrained fiscal environment. Senate Bill 107 [Legislation passed in 2018] designated the Alaska Capital Income Fund for deferred maintenance. In prior years, the receipts for the large vessel gambling taxes had been transferred into the Alaska Capital Income Fund, and the receipts of the large passenger vessel gambling funds supplemented the governor's budget. Annually approximately \$35 million to \$40 million would be available for allocation to deferred maintenance.

Co-Chair Wilson asked if the gambling tax was \$35 million to \$40 million annually. Mr. Steininger replied that the \$35 million to \$40 million was a combination of Emerita Hess money flowing into the Alaska Capital Income Fund as well as large passenger vessel gambling taxes. The Emerita Hess money was estimated to be approximately \$27 million per year. He had seen years where the large passenger vessel gambling taxes were as high as \$10 million.

Representative Josephson asked what other purposes the fund was used for besides deferred maintenance. Mr. Steininger indicated that in most recent years the fund was mostly used for deferred maintenance. The fund had been used for a handful of other purposes including for highways. The fund was a designated fund and could be used for anything through appropriation. However, OMB thought it was good policy to set a baseline for deferred maintenance funding.

Mr. Steininger detailed slide 13: "Deferred Maintenance: Governor's Proposed Budget." He reported that in the governor's proposed budget under consideration there was a request for FY 19 supplemental funding in the amount of \$21 million designated general funds (DGF) from the Alaska Capital Income Fund. In FY 20 the proposed budget included \$26.6 million DGF for statewide facilities, \$7.4 million DGF for K-12 major maintenance, \$4.5 million other funds for the Public Building Fund, \$5 million DGF for the University, and \$2.8 million UGF for the Court System.

Co-Chair Wilson asked what the supplemental dollars were. She wondered what projects needed to be completed by July 1, 2019. Mr. Steininger responded that the supplemental amount appropriated was the balance of the Alaska Capital Income Fund at the end of FY 19. He explained that because there was no reverse sweep language and no draws from the Constitutional Budget Reserve (CBR) in the governor's proposed budget, the balance of the Alaska Capital Income Fund would have otherwise been swept into the CBR. In order to ensure that the money was used for deferred maintenance and that it was adequately funded, OMB chose to appropriate the amount through a supplemental request. By doing so, there was the extra benefit of OMB being able to begin distributing the money to projects once the bill passed. It was beneficial because it better conformed to the maintenance season in Alaska.

Co-Chair Wilson asked which projects would be given money. Mr. Steininger would have to provide the information later. The list of projects was updated each October. Co-Chair Wilson suggested that asking for \$21 million without providing a list of what projects would be receiving funds made it difficult for her to do her job. She did not want to sign a blank check for \$21 million. She had hoped that the presentation would provide more information.

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Vice-Chair Johnston was surprised that the information could not be reviewed and provided in the winter. She asked about the hiatus in the winter. Mr. Steininger clarified that OMB received a list of deferred maintenance priorities in October and provided it to the legislature annually. The Office of Management and Budget did not ask for continued updates through the winter because of the cycle of construction and the maintenance schedule. He thought Mr. Davis could speak more to the logistical impacts of updating a holistic list in the winter for every department.

Co-Chair Wilson asked Mr. Steininger to define "holistic." Mr. Steininger indicated that from a department perspective the state was looking at its entire suite of assets. From the state's perspective and the perspective of the Division of Statewide Facilities, all of the state's assets needed to be looked at.

Representative Josephson stated that it was his understanding that the administration did not want to do a reverse sweep. Rather, it wanted to take sources such as the Power Cost Equalization (PCE) funding and move it to the general fund. He asked if the \$21 million was an exception. Mr. Steininger responded that the administration felt the need to obligate the balance of the Alaska Capital Income Fund for deferred maintenance because of the reversal of a trend of the backlog diminishing and starting to grow again. The administration recognized it was a significant priority. Although the state had the property disposal group, the assets the state chose to retain needed to be properly maintained.

Co-Chair Wilson clarified that although the slide indicated DGF, it was funding that could be utilized for schools, bond reimbursement, or anything else. The money happened to be sitting in a different type of fund. She did not believe the fund received the same scrutiny as unrestricted general funds (UGF). In other words, the \$21 million could be applied to school buildings, the state's major maintenance list, or towards bond reimbursement. It could be appropriated in whatever way the legislature saw fit. She invited Ms. Cramer to make additional comments.

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LAURA CRAMER, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, provided a back story having coordinated the capital budget for the legislature for the previous 4 years. She explained that OMB had a list of prioritized items by agency. However, emergent circumstances sometimes occurred shifting certain priorities up or down. For example, during spring break-up a correctional institution experienced sewage or water pipes breaking which brought a project from low on the deferred maintenance priority list to the top. By giving a lump sum to OMB it could be disbursed as projects became emergent. The flexibility that came with providing OMB with a lump sum for deferred maintenance had worked well over the previous 2 years.

Mr. Steininger continued to slide 14: "Deferred Maintenance: FY 2018 Statewide Appropriation Status." He relayed that the slide represented the distribution the administration made with the \$20 million appropriation in FY 18. He explained that when the administration was looking at the project and how it would distribute the monies, it looked at life, health, and safety issues, as well as assets at risk of imminent failure. The administration considered timely project execution, funding shovel-ready projects. Maintenance in order to meet a program mission with demonstrated returns on investment was also a criteria. He pointed to the list of agencies and their corresponding allocations. He would happily provide a list of specific projects that were funded. He indicated that the administration held a certain amount for emergency purposes.

Mr. Steininger turned to slide 15: "Deferred Maintenance: FY 2019 Statewide Appropriation Status." He relayed that in FY 19 the state received another \$20 million for deferred maintenance. The funding was spread across 28 projects and 13 agencies. The same standards he had mentioned were used. Some of the common projects included roof replacements, safety compliance, and plumbing and electrical repairs. The list totaled just over \$20 million. In the distribution, the administration included the \$400,000 held for contingencies in the prior year and another \$100,000 for a project that was completed under budget in the prior year. In FY 19 the state distributed all of the funds rather than holding them for contingency purposes. Since projects were being done under budget, money could be found for contingency situations.

Co-Chair Wilson noted that the Department of Corrections (DOC) was at \$9.4 million for a 2-year period. She wondered if it was the reason the administration was considering looking at closing correctional facilities and sending inmates out of state. Ms. Cramer responded in the negative. She clarified that the state's correctional facilities required a significant amount of deferred maintenance which was the purpose of the spend.

Co-Chair Wilson wondered if the high cost of maintenance had any bearing on whether buildings stayed open. Ms. Cramer responded that when DOC evaluated which institutions should be considered for closure, all costs would be considered. She deferred to DOC to answer her question more specifically.

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Co-Chair Wilson commented that the list belonged to the administration and had nothing to do with programs; it had to do with buildings. She noted that the Wildwood Correctional Complex was being evaluated for closure. She was uncertain how the \$9.4 million would be spent. She understood that a certain building might be so old that the state would need to look at other alternatives. She asked if the condition of the Wildwood facility was influencing its closure.

Ms. Cramer conveyed that her understanding of the selection of Wildwood was because there was a specific building at the Wildwood Correctional Complex that was segregated from the rest of the full institution that could be shut down completely. Whereas, the rest of Alaska's institutions were single buildings and could not be segregated out and closed. She deferred to DOC to specifically speak to why Wildwood was chosen.

Co-Chair Wilson relayed that it was her understanding that the department did not make the choice. She clarified that there might be a building in poorer condition than the one slated to be closed. Ms. Cramer responded that she was not aware of any correctional facility in such disrepair that it needed to be closed. Co-Chair Wilson thought a significant amount of money was being put into corrections.

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Representative Carpenter returned to slide 14. He asked Mr. Steininger if he was providing the committee with a listing of prioritization in terms of life, health, safety, imminent failure, project execution, and maintenance to spaces that were meeting a program's mission and had a demonstrated return on investment. He wondered if those facilities that were not meeting a program mission or had not demonstrated a return on investment were on the list. Mr. Steininger replied that the list included the distribution detail and the projects that were selected following the criteria. He asked Representative Carpenter if he was looking for a list of projects that did not meet the criteria.

Representative Carpenter was interested in seeing an entire list. Mr. Steininger could definitely provide a full list of all deferred maintenance projects identified and prioritized by all state agencies. He conveyed that in the prioritization that the administration underwent in 2018 and 2019 it tried to transition towards the Division of Facilities Services model. Mr. Davis would be going into significant detail on how the division would start prioritizing projects using a facilities condition index (FCI) and more objective criteria. Previously, the administration had followed the objective criteria used by each department and did a comparison across departments. The administration was currently working with Mr. Davis and his team who were getting the Division of Facilities Services off the ground.

Co-Chair Wilson recalled FY 18 being \$32 million rather than \$20 million. She asked if she was correct. Mr. Steininger indicated that the \$20 million was the amount directly appropriated to the Office of the Governor for statewide deferred maintenance. He would have to get back to the committee about the other amount of Alaska Capital Income Fund monies which might have been appropriated as well. He recalled there were years where more earnings were deposited into the Alaska Capital Income Fund than were appropriated, which was why there was an additional \$21 million available.

Co-Chair Wilson commented that the information did not show the University. She was certain it received funds every year. Mr. Steininger answered that the \$20 million was appropriated to the Office of the Governor. The remaining \$12 million was for the University and the Court System.

The University received \$5 million and the Court System received \$2.5 million. There was also \$4.5 million for the Public Building Fund that was appropriated to the Department of Administration for public buildings.

Co-Chair Wilson asked if he was talking about FY 19. Mr. Steininger corrected her, "FY 18." Co-Chair Wilson wondered if there were additional funds to the \$20 million in FY 19. Mr. Steininger answered in the affirmative. He reported that there was \$4.9 million in the Public Building Fund and \$2 million that went to the University.

Co-Chair Wilson commented that she would appreciate more accurate numbers. She was really concerned that there were many more questions than answers. She was frustrated that answers might be provided in an email, but the public did not always get the information.

Representative Josephson commented that in the detail of the deferred maintenance it noted a roof repair at Wildwood Correctional Complex. It specified Building 10. He hoped the building was one the governor intended to use since it had just been fixed. Ms. Cramer indicated that it was the department's plan to continue to use the facility for now.

Co-Chair Wilson stated that the department did not have a plan. She remarked that the legislature was still waiting on the development of a plan. Mr. Steininger handed the presentation over to Mr. Davis.

[9:46:56 AM](#)

MARK DAVIS, DIVISION OF FACILITIES SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), reviewed slide 16: "Deferred Maintenance: Statewide Facilities Approach." He relayed that the Division of Facilities Services was established based on a statewide study, department level collaboration, and recommendations dated back to 2015. In 2017, OMB directed that the division be established and to begin the process of consolidating the function of facilities maintenance into one organization. He continued that July 1, 2018 was the start of operations for the division. One of the expectations that had been articulated to his team from OMB was assistance and recommendations in the areas of deferred maintenance and state-owned facilities.

Mr. Davis continued to slide 17: "Deferred Maintenance: Opportunities." He indicated that from working with the Facilities Council and members of OMB the division developed a method for prioritizing facilities deferred maintenance requests. The goal of the division was to incorporate an FCI as an unbiased comparison of facilities as a component of its recommendations. The division expected to begin the FCI assessments in the following fiscal year.

Mr. Davis furthered that the division secured a contract with Aim AssetWorks, and it was currently implementing an enterprise level computerized maintenance management system. It would be the system of record for all facilities data and would provide the division the capability to manage the information for more than 2,000 facilities owned by the state. The division was also looking to link the State of Alaska energy efficiency program with select deferred maintenance projects.

Co-Chair Wilson asked when the administration would be looking at the deferred maintenance plan to determine whether a facility was needed any longer. Mr. Davis responded that the directive from the Office of the Governor generated a work group that was established, and the departments agreed to take up the matter of considering which facilities might be eligible for closure. He would be addressing the topic further in the presentation. It was a separate effort in determining whether the department should keep a certain building. However, it was part of the overall picture of decreasing the amount of deferred maintenance required from year-to-year.

Vice-Chair Johnston expressed concern that she was not seeing a cooperative system between the two directives.

Co-Chair Wilson thought that deciding whether a facility was needed should happen prior to making a list of maintenance priorities.

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Mr. Davis discussed slide 18: "Deferred Maintenance: Strategy." The proposed strategy for facilities deferred maintenance included an assessment which had an objective component based on the condition of a building and energy efficiency. The department, in turn, used the information

working with the Facilities Council to prioritize potential deferred maintenance projects, track the execution of the projects and results, capture key performance levels, and capture key component indicators to measure results. The goal was to have a consistent method to assist OMB and the departments in the prioritization and decision making relative to deferred maintenance.

Co-Chair Wilson asked about qualifying for Alaska Housing Finance Corporation (AHFC) loans that the committee had heard about previously having to do with energy audits and the possibility of low-interest loans. Mr. Davis relayed that the program was available to all of the departments. The two people that ran the program for the state worked in the Division of Facilities Services. The administration tried to maximize the program whenever possible.

Co-Chair Wilson opined that the program was not being maximized at all. The committee had heard only one loan had ever been taken out. She asked how the program was being utilized. Mr. Davis responded that Alaska energy efficiency programs had more than one project. He was happy to provide a full list of projects that had been completed. Currently, there were 7 projects in play and about 70 building since the beginning of the program.

Co-Chair Wilson clarified that she was talking about the loan program. Once an energy efficiency audit was completed, there was a loan program available rather than using UGF dollars. She provided an example where an energy upgrade would create a savings which, in turn, could be used to pay back the original loan to make the improvements. Mr. Davis responded that the administration considered a number of different financing options for each project. Co-Chair Wilson disagreed because the legislature was considering making the funds available to non-profits. She thought it might be a way for the state to catch up on its deferred maintenance. She thought it was important for the government to take advantage of the loan fund.

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Mr. Davis reviewed slide 19: "Deferred Maintenance: Assessing Conditions and Needs." The division's proposed vision moving forward was a coordinated and programmatic approach to involving all of the departments. The division's vision included characteristics of continuity,

transparency, and was result-based. He wanted to see the leveraging of the state's expertise as much as possible. An objective assessment would be involved using an FCI. He elaborated that the index was equal to the value of repairs of a facility divided by the total replacement value of the facility.

Mr. Davis continued that the division would incorporate a building mission and system factors component. The building mission factor would represent how essential a facility was to a department's ability to carry out its mission. The system factor incorporated how critical the system was that needed repair. For example, fire and life safety related items would be rated highly. The facilities condition indexes, the building mission, and system factors were what the division used to arrive at a project index value that could be prioritized and vetted by the Facilities Council.

Mr. Davis reported that following a first pass at prioritizing projects, the division would incorporate energy efficiency factors into consideration such as energy intensity or energy costs to determine opportunities for leveraging combined deferred maintenance and financed energy improvements.

Co-Chair Wilson asked how much the state could be saving with the energy efficiencies if they were to be completed. Mr. Davis stated that it depended on the building, its size, and the scope of the project. Generally, projects paid for themselves within about 15 years.

Co-Chair Wilson asked about the 7 energy efficiency upgrade projects and whether they had been completed. Mr. Davis stated that the 7 projects were currently being worked on but were not completed. Co-Chair Wilson queried what funds were being used to complete the upgrades. Mr. Davis answered that the funds were coming from low-cost commercial loans and financing. He offered to provide a complete list of the financing for the projects. Co-Chair Wilson thought the information might be helpful so the state could better assist AHFC, as their interest might be too high.

Vice-Chair Johnston liked the project index value. She suggested also including an asset value index. It would assist in determining the value, need, and viability of an asset.

Mr. Davis thought Vice-Chair Johnston made a very good point. He turned to slide 20: "Deferred Maintenance: Prioritization and Selection." The steps included prioritization by the department, then a discussion with the Facilities Council to talk about all of the projects. The input would be provided to OMB for further decisions and further prioritizations. The division viewed the discussion as a great forum to combine the objective data that was generated on the facilities and other considerations. The division also hoped the process would generate more requests for energy efficiency projects.

Mr. Davis explained slide 21: "Deferred Maintenance: Results Based Performance and Reporting." The slide showed a way the division would be able to evaluate a facility after a deferred maintenance project was complete. The same matrixes could be applied that were used in the selection of prioritization measuring the results after words. The feedback and reporting should reinforce the use of a rule-based process and show evidence that the deferred maintenance efforts were extending the life of the state's facilities.

[9:59:41 AM](#)

Mr. Davis moved to slide 22: "Deferred Maintenance: Disposing of State Assets." He relayed that the Division of Facilities Services worked with the Facilities Council to compile the data on facilities and to provide the information to OMB. Based on the scope of the task, the department agreed to participate in a statewide workgroup to generate the information and to provide recommendations. There were a number of regulations and statutes regarding the disposal of state-owned facilities. The assets that had been federally funded might require some repayment depending on the rules of the different federal agencies. In some cases, remediation might be required prior to the disposal of an asset with hazmat present. The role of the division in the process was to provide the data on facilities and pass the recommendations to OMB. He reported some divestment of facilities over the prior 20 years. For example the Department of Military and Veterans Affairs (DMVA) had disposed of 15 facilities since 2006. The department had a strategic plan that included disposing up to 50 other facilities over a period of time.

Mr. Davis noted that DOT recently sold 2 facilities at \$5.5 million combined. There had been a few other property disposals across the state.

Co-Chair Wilson asked where the money went. Mr. Davis responded that in most cases the money went back to the department. He could provide more detailed information. Co-Chair Wilson asked if the University was part of the discussion surrounding the disposal of facilities. Mr. Davis responded in the negative. Co-Chair Wilson asked why not. Mr. Davis answered that the University had not been part of the workgroup. Co-Chair Wilson queried why not. Mr. Davis offered to get back to the committee.

Co-Chair Wilson thought the University needed to be part of the discussion. Ms. Cramer interjected that the University managed its own assets and had divested some of them. She was aware that there were ongoing efforts to divest more of their assets. The University had a separate effort occurring internally. She was happy to reach out to see if the University wanted to participate in the administration's efforts as well.

Co-Chair Wilson asked if the University provided a priority list to OMB. Ms. Cramer responded that the University provided a list to OMB. The University wanted to receive a level of funding of about \$80 million to \$100 million to address its deferred maintenance. The University, similar to the Court System, received a sum of money from the state and was left to decide how to manage its deferred maintenance. The University had its own maintenance crew as well.

Co-Chair Wilson commented that the University was one of the fastest growing deferred maintenance entities that owned federally funded buildings. The University might be subject to the repayment of federal funds.

Representative Carpenter remarked that Ms. Cramer had used the word "want" in asking the University to participate. He thought the word should be "need." He concluded from the presentation that the state had failed to properly manage deferred maintenance for several years. It appeared that the state was making an effort to establish a better path moving forward. He thought it was important that the largest cost department participated in the state's efforts. He perceived it was gross negligence on the part

of the legislature that the University had not been participating. He was uncertain what needed to occur for the University to participate, but he stressed it should happen. He wanted to know if any statutes needed to be changed to get the University to participate. He wanted feedback either presently or later as to why the University was not participating. Ms. Crammer responded that the State of Alaska did not manage University assets. She would reach out to the University and would encourage them to get back to the committee about their plan.

10:05:19 AM

Co-Chair Wilson remarked that if the legislature wanted the University to participate, it could stop giving the University money to encourage involvement.

Representative Carpenter understood the University might manage its assets, but the state paid for them.

Co-Chair Wilson was concerned because the school districts also managed their assets, but they participated and provided a list. She thought that not everyone was being treated fairly.

Vice-Chair Johnston recommended caution. She thought DOT sometimes broke into silos. She preferred that the University report to the legislature. Otherwise, opportunities for reassessment might get lost. She also preferred to have the University provide reports of deferred maintenance similar to what the school districts provided. She wanted the legislature to be able to apply a standard for appropriation. She advised caution about putting everything in one bucket.

Co-Chair Wilson thought the University needed to be at the table to discuss deferred maintenance.

Representative Josephson agreed that the legislature helped the University in a sizable way. The University generated more revenue than the state provided. The University was not a department of the government, and the Supreme Court had made such a determination. There was a list of departments in statute, and the University was not one of them. He cited a case that described the University's authority. It had constitutional and independent standing. It also had its own bonding authority and its own debt

through bonding. The University also owned buildings that were over 100 years old. He agreed that there was linkage and leverage and that a conversation needed to happen.

Co-Chair Wilson continued to advocate for the involvement of the University. She thought it was important that the University participated as long as it continued to ask for state funding.

Representative Carpenter commented that many of the issues the state dealt with using federal funds had strings attached. In some instances, the state was mandated to meet certain requirements. He did not see the situation with deferred maintenance and the University much differently. He thought it was appropriate for the state to have some control in how the University was spending state dollars as well as a requirement that the money was spent efficiently and effectively. He agreed with having strings attached.

Co-Chair Wilson asked if there was a way for the public to access a list of state properties available for disposal by community. Mr. Davis was not aware of a list. He could look into it. the division could respond to specific requests. He did not know if there was access to a complete listing.

Co-Chair Wilson asked about a list of facilities mandated to stay open because of receiving federal funds. She supplied an example of the Alaska State Ferries.

[10:11:11 AM](#)

Vice-Chair Johnston thought there was a public disposal process which required public notice. She also noted there was a tiered bidding system and various levels of participation.

Mr. Davis reviewed slide 23: "Deferred Maintenance: Looking Ahead." The division would continue to assist OMB and to work with the Facilities Council in the process. The division was looking forward to getting uniform assessments of the state's facilities in order to focus the resources that were made available. The division would also provide feedback on how the process was working. He concluded his presentation.

Representative Carpenter thought the division had made a great first step at adopting better management processes.

He asked Mr. Davis to share a timeline going forward. He wanted to know when results would start to emerge. Mr. Davis replied that the division was putting out a request for proposal for the expertise for conducting the FCI process. The division would prioritize a set of buildings for the experts to work with to provide feedback to the division. Simultaneously, the division would be training in-house staff how to do the process. He expected to apply the metrics in the following year to the first set of priorities. He expected that the amount of buildings to be assessed would grow based on the division's capacity.

Vice-Chair Johnston noted the large number of backlog dollars for DOT. She asked if the amount had to do with all aspects of highways. Mr. Davis responded that there were other categories of deferred maintenance. He indicated that the focus of the presentation was facilities, but he agreed there were other components of deferred maintenance including highways.

Vice-Chair Johnston asked if aviation maintenance dollars were for runways other than the international airports. Mr. Davis responded, "That is correct."

Vice-Chair Johnston asked about deferred maintenance for harbors. Mr. Davis responded that the harbors had different funding mechanisms depending on which harbor was being discussed. Some harbors were maintained through the Harbor Maintenance Grant Program. Some harbors were owned and maintained by cities and boroughs, and some were state funded. The deferred maintenance monies would be directed to the state-owned harbors.

Co-Chair Wilson announced that someone from the Court System was present if any members had questions.

Co-Chair Wilson relayed the agenda for Thursday.

Representative Josephson asked if a crime bill would be getting to finance in the following week.

Co-Chair Wilson confirmed that a crime bill would be heard in the following week and that there would be a number of hearings on the issue in the next week and over the weekend. Members needed to be prepared to work through the following weekend.

HB 38 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[10:17:55 AM](#)

The meeting was adjourned at 10:17 a.m.