

SENATE FINANCE COMMITTEE
February 14, 2020
9:00 a.m.

[9:00:33 AM](#)

CALL TO ORDER

Co-Chair von Imhof called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman

ALSO PRESENT

Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development; Tim Mearig, Facilities Manager, Department of Education and Early Development

SUMMARY

SCHOOL CONSTRUCTION FUNDING OVERVIEW

HB 106 SCHOOL BOND DEBT REIMBURSEMENT

HB 106 was HEARD and HELD in committee for further consideration.

#hb106

HOUSE BILL NO. 106

"An Act relating to school bond debt reimbursement."

[9:01:41 AM](#)

^SCHOOL CONSTRUCTION FUNDING OVERVIEW

9:01:45 AM

Co-Chair von Imhof explained the issue:

- House Bill 106 was initially presented to the committee on May 6, 2019. We took public testimony and reviewed the fiscal note. The bill is currently unchanged from last year.
- To recap: we currently have a moratorium in place. Projects approved by voters between January 1, 2015 and June 30, 2020 are not be eligible for the state's bond debt reimbursement program and the whole cost must be paid by the municipality.
- House Bill 106 would extend the current moratorium for another five years - until June 2025.
- If we do nothing this session, the moratorium will end and the state will resume paying a portion of the bond debt incurred for projects approved after June 30. The state reimbursement rate would be 40 percent or 50 percent, depending on type of project.
- House Bill 106 would not affect repayment of debt that was approved before the moratorium. The state continues to make reimbursements for those payments, though the amount was reduced by half by a budget veto this year.
- My office has prepared a table showing the current status of the program and the FY2020 debt reimbursement amounts.

9:04:07 AM

Co-Chair von Imhof looked at the table titled, "HB 106 School Bond Debt Reimbursement Timeline" (copy on file):

BEFORE 2015

School Bond Debt Reimbursement:

Municipalities could bond for school construction/major maintenance and get a

percentage reimbursed by the state. The percentage reimbursed depends on type of project and the date the bond was approved by voters. Projects approved before 2015 were not affected by the moratorium - the state continued to make payments on existing debt.

Veto Effects:

In FY2020, state payments on existing debt was cut in half by veto. This increased the local share of the debt payments.

The amount that this affects each district is on the attached list.

BETWEEN 2015 - 2020

5-year moratorium (expiring):

Any bonds approved by voters between January 1, 2015 and June 30, 2020 are not eligible for reimbursement by the state; all costs are being assumed by the local municipalities. The moratorium will expire on July 1, 2020 if nothing is done.

2020 and BEYOND

No Legislative Action:

Any bonds approved by voters after July 1, 2020 will be eligible for reimbursement. Rate will be 40 percent for most projects and 50 percent for those that qualify under AS 14.11.100(j)(4).

HB 106 - 5-year extension:

If HB 106 passes, any bonds approved by voters between June 30, 2020 and 2025 are not eligible for any reimbursement by the state; all costs are being assumed by the local municipalities. Bonds approved on/after July 1, 2025 would be eligible for debt reimbursement.

9:05:36 AM

HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced herself.

TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

Ms. Teshner (DEED) discussed, "State-Aid for School Capital Projects: Debt and Grant" (copy on file). She highlighted slide 2:

Our Mission: An excellent education for every student every day.

Our Vision: All students will succeed in their education and work, shape worthwhile and satisfying lives for themselves, exemplify the best values of society, and be effective in improving the character and quality of the world about them.

Ms. Teshner addressed slide 3:

What is DEED's purpose? Why do we exist as an agency? Connect how your work/this presentation reflects DEED's purpose.

Mr. Mearig highlighted slide 4, "Historic School Capital Funding":

1. Federal
2. State Funding Mechanisms (General Fund)
 - Grants (less than 1970)
 - GO Bonds (2003, 2011)
 - AHFC Revenue Bonds (1999, 2001, 2002)
 - Debt Reimbursement (1971)
 - School Fund - AS 43.50.140 (FY99-present)
 - Others (Ex. Insurance Fund - AS 22.55.430)
3. Local Education Agency (LEA)
 - Capital Reserves
 - Municipal Debt

Prior to 1900, formal education in Alaska was all Federal (or was connected with church missions). In 1900, Congress granted legal authority for communities

in Alaska to incorporate and establish schools. In 1905, the Nelson Act provided for schools outside the incorporated towns assigning responsibility to the District of Alaska and later the Territory (1912). This solidified a dual system for education in Alaska portions of which remained until the mid-1980s. The dual system shared responsibility between the Territorial/State government and the Federal government. The Federal government, through the Department of Interior, had primary responsibility for Alaska Natives.

Generally, where a school was formed, through either system, a school facility followed. There is no clear record of just how this occurred nor through what funding sources.

Federal involvement continues today through Impact Aid for school capital (less than \$1M annually) + Urgent Reno less than \$4M, etc. Since federal withdrawal in 1984, between \$10M-\$20M.

[9:09:48 AM](#)

Mr. Mearig discussed slide 5, "Historic Funding - All Sources [c1975 - 2019]."

Source: DEED Projects.mdb database. Created in 1997 in response to Kasayulie.

Debt - \$3,121,926,215
DEED Grants - \$2,381,666,795
Other Grants - \$587,834,345
Federal - \$28,177,762

Co-Chair von Imhof stressed that there were many different ways to fund the schools. She explained that approximately half was debt reimbursement, but 40 percent was through grants. She felt that was the purpose of the slide.

Mr. Mearig pointed to slide 6, "Historic Funding - All Sources [c1975 - 2019]":

Source: DEED Projects.mdb database. Created in 1997 in response to Kasayulie.

City/Borough - \$4,110,330,733
Multi/Statewide - \$21,205,800
REAA - \$1,988,304,184

Co-Chair von Imhof asked for a description of Regional Educational Attendance Area (REAA) and the reason for the categories.

Mr. Mearig replied that REAAs were established in 1974. The REAAs were areas where there was no local government to take responsibility for education, otherwise education was the responsibility of the cities and boroughs.

Co-Chair von Imhof wondered how many school districts were in REAAs.

Mr. Mearig responded that there were currently 19 REAA school districts.

[9:14:50 AM](#)

Mr. Mearig highlighted slide 7, "Recent Funding (SB237 Report)":

1. \$1,430,689,400 in Funding
 - Total project value for Debt projects
 - State share value for Grant projects
2. Three Supplementary Handouts
 - Project Funding by District (report Appendix A)
 - Project Listing by District (report Appendix B)
 - Funding by Year by District

Co-Chair von Imhof wondered whether the slide discussion was complete.

Mr. Mearig replied that there were some supplemental handouts that tracked the \$1.4 billion since the 2010 watershed time period.

Co-Chair von Imhof shared that that there was a large appendix handout. She looked at Appendix A, which listed the different school districts, the number of grant projects, the total debt funding, and the total grant funding per district. The intent was to examine to different "buckets" and the different funding amounts. She noted that debt fund had \$720 million total, and grant funding was \$709 million total. She explained that the larger school districts, like the Anchorage School District, received grant funding. She stated that Appendix

B showed the different project types. She wondered whether "DR" was "dead."

Mr. Mearig replied in the affirmative.

Co-Chair von Imhof stated that the document was intended to give the committee a feel for the activities for capital projects in school districts across the state.

Mr. Mearig shared that there was an additional outline that showed the district funding by year.

Co-Chair von Imhof stated that he was referring to the first page of the document.

Mr. Mearig discussed slide 8, "Current Funding Options":

1. School Construction Grant Fund (1990)
2. Major Maintenance Grant Fund (1993)
3. REAA and Small Municipal District Fund (2010)
Indexed fund
DR Funding / percent of C/B schools * .244
4. Debt Reimbursement Funding

[9:20:47 AM](#)

Co-Chair von Imhof explained that when the veto override failed in the month prior,

Mr. Mearig replied in the affirmative, and explained that there was a nuance, because the REAA fund was on a two-year lag in the actual debt provided

Co-Chair von Imhof explained that the handouts were all posted online.

Co-Chair Stedman wondered how Mt. Edgecumbe was in the list.

Mr. Mearig deferred to Ms. Teshner.

Ms. Teshner explained that the department worked with Mt. Edgecumbe every year to determine their capital needs. She shared that there was a deferred maintenance list provided to the department, and a budget request was put forward as a separate direct appropriation to Mt. Edgecumbe.

Co-Chair Stedman felt that including Mt. Edgecumbe in the list would show a picture of all the schools in the state. He wondered whether Mt. Edgecumbe would fall into the major maintenance list.

[9:24:34 AM](#)

Ms. Teshner replied that Mt. Edgecumbe would not be included in that major maintenance list, and agreed to provide information about Mt. Edgecumbe's historic capital appropriations over the last ten years.

Co-Chair von Imhof wondered whether Galena School had its own line item.

Ms. Teshner replied that it was part of Galena School District.

Senator Bishop wondered how a school district would get on the major maintenance list, and whether there was a required dollar amount.

Mr. Mearig replied that all districts had the ability to apply for school capital funding through the grant process as outlined in AS 14.11. He explained that there was a threshold set in regulation, that stressed that below \$50,000 was not considered major maintenance.

Senator Bishop surmised that a city or borough did not have to supply a fee for the application.

[9:26:25 AM](#)

Mr. Mearig replied in the affirmative, and stated that the application was available to all.

Co-Chair von Imhof believed that the next slides would describe the capital grant evaluation parameters.

Mr. Mearig addressed slide 9, "Current Project Categories (AS 14.11.013)":

(A) avert imminent danger or correct life-threatening situations;

(B) house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;

(C) protect the structure of existing school facilities;

(D) correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;

(E) achieve an operating cost savings;

(F) modify or rehabilitate facilities for the purpose of improving the instructional program;

(G) meet an educational need not specified in (A) –

(F) of this paragraph, identified by the department

Mr. Mearig looked at slide 10, "Current Project Categories (AS 14.11.013) (Major Maintenance)":

(C) protect the structure of existing school facilities;

(D) correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;

(E) achieve an operating cost savings;

Co-Chair von Imhof wondered whether schools that experienced damage from disasters would fit into the program.

Mr. Mearig explained that when a project was identified by a district, the department would use the categories to identify the primary purpose of the project. That project was then placed on a corresponding list for major maintenance or school construction grant funds. He shared that a project that had a loss would be evaluated, and there would be some major rebuilding that would include new square footage. He shared that a project must be evaluated

for whether or not the student population would qualify for the space.

[9:30:28 AM](#)

Senator Olson understood that Kaktovik had a fair amount of insurance coverage, but some schools did not have adequate insurance money. He wondered whether there was an emergency fund to access for those underinsured school districts.

Mr. Mearig replied that the department did not have an emergency fund. He explained that there was opportunity to fund construction related to emergencies. He shared that every district was required to have replacement value insurance on their buildings. He noted that there were some losses that could be separately managed by those districts, such as Anchorage without earthquake insurance. He shared that the first opportunity of funding for any catastrophic loss would be insurance, followed by funding mechanisms through AS 14.11.

Senator Olson wondered whether Mr. Mearig was advocating for earthquake insurance. He felt that earthquake insurance may be unaffordable.

Mr. Mearig was not aware of the department's position on earthquake insurance, but shared the concerns about costs.

Co-Chair von Imhof reminded the committee that there was a supplemental budget with a draw on the CBR, which was the ultimate backstop for very large disasters such as wildfires and earthquakes.

Co-Chair Stedman noted that there was approximately \$149 million in requests, which was historically normal. He requested the ranking process.

Mr. Mearig responded that he state had a robust rubric for evaluating capital project needs through the grant process. He explained that, as districts submitted applications, there was a series of factors that contributed to the evaluation criteria. He stated that there was also a consideration of the scope of the project as it pertained to education related spaces directly. He shared that the department used an evaluative ranking team to independently rank and come to an agreement on the assessment of the

scoring. He noted that the ranking did not apply to the debt-funded projects.

Co-Chair Stedman explained that committee would pick an aggregate dollar amount for major maintenance. He pointed out that there would not be a project funded before one that is listed earlier in the list.

[9:37:21 AM](#)

Co-Chair von Imhof requested the list from the department.

Mr. Mearig pointed to slide 11, "Current Project Categories (AS 14.11.013) (School Construction)":

(A) avert imminent danger or correct life-threatening situations;

(B) house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;

(F) modify or rehabilitate facilities for the purpose of improving the instructional program;

(G) meet an educational need not specified in (A) - (F) of this paragraph, identified by the department

Mr. Mearig discussed slide 12, "Fund - Category - Entity Relationships":

Small Municipal Districts are: Hydaburg, Kake, St. Mary's, and Tanana. (previously also Klawock)

Mr. Mearig continued to discuss slide 12.

Senator Bishop queried the threshold dollar amount on the last point.

Mr. Mearig replied that the qualification for a small municipal district was based on the assessed valuation and student population. He agreed to provide the exact formula.

Mr. Mearig continued to discuss slide 12.

[9:45:11 AM](#)

Mr. Mearig highlighted slide 13, "Capital Improvement Project (CIP) Eligibility":

1. Six-year capital improvement plan
2. Functioning fixed asset inventory system (FAIS)
3. Proof of required property insurance
4. Certified PM and Facility Management Program
5. Capital project and not maintenance
6. Participating share

Senator Bishop was grateful for the "wiggle room" of requirements for the list. He felt that a proactive facility manager should be a priority.

Co-Chair von Imhof thanked the department for the management and criteria of the list. She felt that other agencies could benefit from a similarly managed list. She wondered whether Mr. Mearig would share the methods at other agencies' request.

Mr. Mearig replied in the affirmative.

Mr. Mearig looked at slide 14, "Grant Participation and Eligibility":

1. Capital Improvement Project (CIP) Grant Application
Due from School Districts on or before September 1 (annually)
CIP Application materials are posted on our website
(education.alaska.gov/facilities/facilitiescip)
2. Project Ranking
Ranked in accordance with criteria in AS 14.11 and 4 AAC 31
3. Eligibility
Districts must have a six-year plan, a fixed asset inventory system, adequate property loss insurance, and a preventive maintenance and facility management program certified by the department
4. CIP Priority lists
Initial lists are released on November 5
Final lists are released after any appeals for reconsideration are finalized

Mr. Mearig addressed slide 15, "Grant Participation and Eligibility":

Sample slide. Use Slide:ology as a reference guide as you create your presentation. The DEED PIO has a copy available for loan.

9:50:06 AM

Mr. Mearig discussed slide 16, "Grant Awards FY12 - FY20":

Sample slide. Use Slide:ology as a reference guide as you create your presentation. The DEED PIO has a copy available for loan.

Co-Chair Stedman pointed out that the 50 percent Harbor Matching Grant Fund was modeled after the list, meaning that the agency ranked the harbors. He noted that coming out of a decade of minimal capital projects in approximately 2006, the legislature eliminated the school's major maintenance list. He wondered whether the department could examine that time, because the following year the list re-materialized, because of the reapplication from the schools. He felt that the funding requirement of \$150 million may not be available. He stressed that there would continue to be a new list with similar projects.

9:55:04 AM

Co-Chair von Imhof felt that the legislature could not predict the behavior of the school districts other than examining the historical data. She wondered whether there should be a risk of \$30,000 and inflate it to \$100,000. She stressed that the concern was about funding in small increments or allow districts to examine their priorities. She did not have the solution to that concern.

Mr. Mearig looked at slide 17, "Debt Participation and Eligibility":

1. Debt Reimbursement program is established in AS 14.11.100
2. Capital Improvement Project (CIP) Debt Application
 - a. May be received at any time the Debt Reimbursement program is open.
 - b. CIP Application materials are posted on our website
(education.alaska.gov/facilities/facilitiescip)
3. Project Ranking

- a. Projects are not ranked or evaluated for prioritized need
- 4. Eligibility
 - a. All types of City except 3rd Class
 - b. All types of Borough
 - c. Districts must have a six-year plan, a fixed asset inventory system, adequate property loss insurance, and a preventive maintenance and facility management program certified by the department

Mr. Mearig addressed slide 18, "Debt Reimbursement Trends":

Percentage of Annual Debt Service

- FY1971 - FY1977 100 percent
- FY1978 - FY1983 90 percent
- FY1984 - FY1994 80 percent
- FY1995 - FY1999 70 percent
- FY2000 - FY2015 70 percent/60 percent*
- [SB64 (SLA 2015) implements moratorium on additional debt reimbursement through FY2020]
- FY2021 - FY20XX 50 percent/40 percent**

*NWAB at 90 percent for bonds between 1990-2006

**Rates shown are reflective of current statute after the moratorium is lifted

1970 - 1983 Debt was run as a program under Department of Revenue (AS 43.18.100)

In the FY00-20 period, there was a special provision in AS 14.11.100 to reimburse NWAB at 90 percent for bonds between 1990 and 2006.

Co-Chair von Imhof noted that REAAs continued to have 100 percent.

Mr. Mearig replied that REAAs had a 2 percent match and a 98 percent state share.

Mr. Mearig discussed slide 19, "Debt Reimbursement Trends":

1970 - 1983 Debt was run as a program under Department of Revenue (AS 43.18.100)

- 100 percent - \$1,412,000 (likely missing data)
- 90 percent - \$146,451,910
- 80 percent - \$598,790,179

70 percent - \$1,765,433,689

60 percent - \$642,258,438

[none of the above is adjusted for the time-value of money]

10:00:21 AM

Senator Bishop wondered whether the 2 percent came out of the district's BSA.

Mr. Mearig replied that he did not have detailed information about how a district would reach their 2 percent match. He stated that the district must use outside 14.11 money.

Co-Chair von Imhof wondered whether there was any state capital money for charter schools.

Mr. Mearig replied that that charter schools would be eligible for capital funding if they were in a facility owned by the district. He stated that charter schools in leased facilities were not eligible for state aid under 14.11.

Co-Chair von Imhof surmised that the charter school would need to pay for their capital on their own., if a district vacated a building.

Mr. Mearig replied in the affirmative, and explained that if the charter school leased the space, the lessor's rate would assume some level of capital renewal as needed for that particular building. The state did not fund repairs on other peoples' buildings, only on buildings owned by a school district as a political subdivision of the state.

Mr. Mearig addressed slide 20, "Debt Reimbursement Trends":

1970 - 1983 Debt was run as a program under Department of Revenue (AS 43.18.100)

Co-Chair von Imhof noted that new school bond debt could be partially reimbursed at 50 percent or 60 percent in July 2020.

Mr. Mearig agreed, if there was an authorization of new school debt.

Co-Chair Stedman wondered whether there were any authorized unissued bonds available.

Mr. Mearig replied that he did not believe so.

Mr. Mearig pointed to slide 21, "Debt Reimbursement Trends":

Fully funded 32 out of the past 45 years.
Significant shortfalls through 1980; small adjustments through 1990; veto anomalies in FY17 and FY20.

[10:06:11 AM](#)

Mr. Mearig addressed slide 22, "Debt Proceeds and Refundings":

Initial Bond Sales

- After bonds are sold the department identifies how much of approved projects are funded by the new bond.
- Establish any proration's for bonds based on approved project reimbursement rate. (AS 14.11.100(a))

Refunding of Bonds

- Refunding of current bonds must follow the requirements in AS 14.11.100(j)(2).
- Department evaluates refundings by comparing the annual debt service of the refunding package to the original annual debt service of the bond(s) that are refunded. The refunding must show an annual savings.

Mr. Mearig discussed slide 23, "Funding Comparison":

REAA/Small Muni

Available to REAA and 4 small municipal districts

Funds state share of actual project costs

Projects are funded by priority from DEED lists

Specific eligibility requirements:

1. No new space for MM

2. Only eligible space for SC
3. Priority to school construction

Participating share: REAAx - 2 percent;
Small Muni - 10 percent to 20 percent

State funding is tied to annual appropriation for
debt reimbursement

MM/SC Grant Funds

Available to all school districts

Funds state share of actual project costs

Projects are funded by priority from DEED
lists

Specific eligibility requirements:

1. No new apace for MM
2. Only eligible space for SC

Participating share required between 2
percent and 35 percent

State funding is by legislative
appropriation to the funds

Debt Reimbursement

Available to any municipality that has the
ability to bond

Funds portion of annual municipal debt
payments

Local government sets own priorities

Could fund projects that are not eligible
for grants - those not eligible for space

Participating share currently at: 60 percent
if not eligible for space 70 percent all
others

State funding is based on when the bond was passed and subject to appropriation.

[10:10:54 AM](#)

Co-Chair von Imhof wondered whether there would be a change to the percentage.

Mr. Mearig replied in the affirmative.

Co-Chair von Imhof surmised that it was in July.

Mr. Mearig agreed.

Co-Chair von Imhof thanked the presenter and the documents provided by him.

Senator Olson wondered whether the ultimate decision in the appeal would be made by the hearing officer.

Mr. Mearig replied in the affirmative, and explained that any project determination that was made in the annual list issued on November 5 would allow for districts to come to the department by the end of November to ask for reconsideration. He shared that there were typically a few that would request reconsideration for either points or the assigned dollars. He remarked that there was also an evaluation of all capital project requests that came through the grant process for cost effectiveness. He stated that there were many altered projects for cost effective purposes, so a district may disagree with that valuation change.

Senator Olson wondered whether an independent hearing officer was a subordinate of DEED. He queried the effectiveness of determining a different answer.

Mr. Mearig replied that that it used to be appealed to the superior court.

Senator Olson asserted that it was no longer an option.

Mr. Mearig stated that a department employee was no longer serving as a hearing officer.

Senator Olson wondered how many times an appeal at that level had reversed a department decision.

Mr. Mearig replied that he was not aware of a specific time, and his history in the department went back to 1998.

Co-Chair von Imhof restated the timeline of the bill and its aspects.

HB 106 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:15:50 AM

The meeting was adjourned at 10:15 a.m.