

HOUSE FINANCE COMMITTEE
March 30, 2021
1:33 p.m.

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CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Caroline Schultz, Policy Analyst, Office of Management and Budget, Office of the Governor; Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Deven Mitchell, Executive Director, Alaska Municipal Bond Bank Authority, Department of Revenue; Marie Marx, Attorney, Legislative Legal Services; Alan Weitzner, Executive Director, Alaska Industrial Development and Export Authority; Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development; Connor Bell, Analyst, Legislative Finance Division.

SUMMARY

HB 93 G.O. BONDS: STATE INFRASTRUCTURE PROJECTS

HB 93 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the agenda for the day.

#hb93

HOUSE BILL NO. 93

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of state infrastructure projects, including construction, communications, major maintenance, public safety, and transportation projects; and providing for an effective date."

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CAROLINE SCHULTZ, POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR OFFICE OF THE GOVERNOR, presented HB 93 introducing the Power Point Presentation: "HB 93 - General Obligation." She would provide a quick high-level overview of what the administration was thinking when it put the General Obligation (GO) Bond package together. She would also explain why it was a good time to get some construction money on the street and take advantage of very low financing costs. House Bill 93 had a bond issuance of \$356.4 million. It consisted of \$354 million in projects and \$1.8 million to issue the bonds. The bill's fiscal note would show an annual debt service of \$22 million beginning in FY 23.

Ms. Schultz continued that the current bond interest rate was 2.35 percent. She pointed out that one of the reasons the administration decided to finance capital infrastructure was because, compared to the lower rates of borrowing, the state returned a much higher rate on its savings. The state was projected to return 6.25 percent on its savings. Financing the projects would result in an additional savings of \$273 million over the long-term comparing the interest the state would earn to the amount the state would have to pay on its borrowing.

Ms. Schultz also pointed out that there would be a special election associated with the bill to be held between 90 days to 120 days after adjournment, and there was a cost associated with the election of about \$2 million.

Co-Chair Merrick indicated Representative Wool had joined the meeting.

Ms. Schultz turned to slide 3 which showed the project totals by department. There were projects selected from a variety of departments but the largest projects were in the Department of Transportation and Facilities Maintenance (DOT). Several road, airport, and port projects were featured in the GO Bond project list. She was prepared to discuss the project list later in the presentation or in a later hearing. She turned the presentation over to Devin Mitchell from the Department of Revenue (DOR).

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DEVEN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK AUTHORITY, DEPARTMENT OF REVENUE (via teleconference), introduced himself and discussed the state debt obligation process on slide 4. He indicated all debt of the State of Alaska had to be approved by the legislature and affirmed by the governor or a super-majority of the legislature. He explained that with GO Bonds there was also the additional step of having the voters of the state ratify the issuance of bonds. The high standard for issuing GO Bonds resulted in the best execution in pricing of any potential offering the state might put out as a debt instrument. For example, if the state had one of the state corporations issue a revenue bond that had a similar rating to the state's general obligation rating, it would be expected that the general obligation rating of the state would result in a lower interest rate than the state agency.

Mr. Mitchell relayed there were only 50 states and only 50 opportunities to buy general obligations - a full faith taxing authority pledge of a state. Therefore, it carried a higher value to investors than certain other lesser pledges. If a GO Bond was approved by voters, the state bond committee authorized the specific terms of the various issuances. Caroline referenced the cost of issuance of the bonds, an estimate included in the bill. It was really a "not to exceed" amount. There were certain costs the state would pay only if the state issued bonds. The state

contracts were generally structured so that it paid based on the size of the issuance. Ratings were smaller fees for smaller issuances and larger fees for larger issuances. It was the same for bond counsel and financial advisory services.

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Mr. Mitchell scrolled to slide 5 which contained a summary of the currently outstanding annual debt service of the State of Alaska. He pointed out there were gradual reductions. The state had a debt program of issuing generally 20-year level debt service bonds. As the obligations stepped off, the state had been issuing the GO Bonds included in the table since FY03. In FY 24 to FY 25 the FY 03 bonds would drop off, and from FY 27 to FY 28 there would be a slight reduction because of the interaction between the FY 13 bonds being paid off and the FY 10 bonds debt service increasing slightly. The state had a mature portfolio that was able to withstand the additional debt service proposed in HB 93.

Mr. Mitchell relayed that the next line in the table showed the potential annual debt service associated with the proposed bond issuance. The numbers were based on all of the bonds being issued immediately. The state would have a sale as quickly as possible after the election was conducted and would include the entire authorization. The entire authorization would be eligible for a 20-year amortization.

Mr. Mitchell thought the likelihood of the state issuing all the bonds at once was relatively small. It was more likely the state would have a couple of issues, and there would be certain projects on the projects list that would not qualify for 20-year financing. He explained that bonds were issued on a tax-exempt basis. The amortization could not exceed the IRS' opinion about the useful life of the acquisition. Therefore, certain equipment or other short-life assets or improvements would have shorter amortizations. His numbers were estimates but were reasonable given all of the factors that would come together for the purpose of sizing the issuance. He concluded his statement.

Representative Josephson asked why the administration had not recommended \$250 million or \$450 million. Mr. Mitchell

responded that it was a function of the compiled project list. He noted that bond issuance was done in \$5000 increments. The principal amount would not be able to comply with the bill. However, through structuring, the state would wind up with proceeds equal to the amount authorized even if it was an odd amount indivisible by \$5000.

Vice-Chair Ortiz referred to the bond project list. He thought the proposal had been compiled prior to the state receiving federal funds for COVID relief. He wondered if federal monies had been considered in lieu of a bond package proposal.

Mr. Mitchell responded that he did not know the answer to Representative Ortiz's question. He thought it would be better directed to the departments that would be spending the money.

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Ms. Schultz responded that the facts had changed significantly since the GO Bond list was generated. The availability of federal funds through the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) bill and the American Rescue Plan Act (ARPA) bill had changed things as well as the passage of time and the information the Office of Management and Budget (OMB) had gathered from department and community stakeholders involved in the projects. The administration was happy to work with the committee on refining the list of GO Bond projects and projects that would benefit from federal funding.

Vice-Chair Ortiz was concerned about the possibility of the use of the GO Bond program tying up options for the state in the future. Mr. Mitchell agreed that the payments would be tied up with future legislatures. He indicated the state had about \$1 billion of capacity to issue GO Bonds. Therefore, it should be used judiciously. He thought the legislation before the committee was an attempt at being judicious. He suggested that if other funding options became available, it would benefit the state's long-term outlook to use the alternative sources rather than the state's highest commitment level debt. He suggested that maybe there could be flexibility structured within the bill that could provide for such a provision. It boiled down to

ensuring that the projects were critical to the functioning of the state such that the state was willing to pay for the projects for the following 20 years.

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Representative Edgmon saw many facts changing with many questions unanswered and many unknowns. He noted the grand list of deferred maintenance totaling over \$5 billion. He also spoke of the need to jump-start the economy. He mentioned that the state had not had a capital budget to speak of in several years. He thought large policy discussions were necessary and far beyond the scope of the meeting. He brought up the issue of timing for a GO Bond issuance as well. He hoped the administration was equipped to have a larger discussion with the legislature. He had several questions.

Representative Carpenter had a question regarding future funds that the state was likely to receive. He queried whether the GO Bond debt balance could be paid early.

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, asked Representative Carpenter to clarify his question. Representative Carpenter was unsure whether the federal funding could be used to pay down debt. He was asking if the structure of the debt would allow the state to pay it off early. Mr. Steininger thought Mr. Mitchell could better answer the representative's question.

Mr. Mitchell offered that the tax-exempt municipal market expected bonds to be issues with a 10-year par call. He explained that at the tenth year the state would have the option to redeem the outstanding bonds to either pay them off or refinance them. The first 10 years of the loan would be locked in. Even though the state would be issuing the bonds at a very low yield in the current market, about 2.3 percent, the coupon rate on the bonds was likely to be much higher. He relayed that what the investors were looking for and how the state got the lowest yield possible was by structuring the bonds with a higher coupon, a premium bond. He provided an example of expenses related to paying a bond debt off early. He suggested that when the bonds were issued, the state should be comfortable with

issuing them for at least 10 years or otherwise not sell them.

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Representative Rasmussen asked how the project list was determined. She thought there was a disparity in the distribution of funds from district-to-district. She tallied the projects specific to Anchorage Municipality house districts which equaled just under \$13 million of the proposed \$354 million - roughly 3.5 percent of the funding. It appeared that some of the bond projects should be done at the local level. The feedback she had received from her constituents regarding the GO Bond was that they could agree if the projects brought down the cost of energy or it made projects more financially feasible for private companies investing in rural Alaska to develop the state's resources. However, many of the items were related to deferred maintenance. She asked Mr. Steininger to expand on how the list was produced.

Mr. Steininger responded that the administration looked at existing lists or requests that had come from agencies in prior years, items the state could not accomplish in prior capital budgets. The projects on the list needed to be ones that the state would have done otherwise rather than new spending to incur debt. The state would be taking advantage of low interest rates to accommodate needs the state had in capital infrastructure. There were a couple of projects like the Houston Middle School that did not fit the criteria he mentioned but was needed in the respective communities. The bonding amount associated with the Houston Middle School would pay the costs not covered by insurance. In putting together a GO Bond project list, regional equity was a consideration. However, the administration also looked at the wider spend the state had for the FY 22 capital budget when considering regional equity.

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Co-Chair Merrick indicated OMB could provide more detail after the committee heard from Legislative Legal Services.

Representative Rasmussen continued to comment on the disparity of the project list. She desired more conversation on the topic moving forward.

Representative LeBon thought shovel ready projects should be a priority. He asked for a proper definition of a "shovel-ready" project. He thought shovel-ready meant that a project was designed with specifications available for bid and simply awaited funds. He was uncertain if the Fairbanks Youth Facility was shovel-ready.

Representative Wool asked if it had been determined whether federal funds needed to be appropriated, or if the governor could use the RPL process again. Mr. Steininger responded that federal funds would require an appropriation. The RPL process was another tool for an appropriation of federal revenues when they were not anticipated at the time a budget was passed. Once the administration understood the rules around ARP monies, it would bring forward proposed appropriations to expend the funding.

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Representative Edgmon spoke of receiving the initial guidelines on or about May 11, 2021. He suggested that it would likely require a special session. Mr. Steininger could not predict whether a special session would be needed. Once the administration understood the rules regarding ARPA spending, it would work on how the money could be allocated in the state budget. He was unsure of the timing and was unsure about the need for a special session.

Representative Edgmon thought that Mr. Steininger's response was code for the \$1 billion being dispersed by the governor through the RPL process. He thought the committee should be aware of that possibility. The legislature was being asked to apply discretion towards \$356 million possibly in a GO Bond package. However, \$1 billion would be coming to the state through ARPA which might, because of timing, might have to go through the RPL process going beyond the appropriation process in the legislature.

Co-Chair Merrick thanked Mr. Steininger and Mr. Mitchell for their presentation. She directed attention to a legal memo dated, March 5, 2021 (copy on file), in members' packets. The memo identified three broad issues with the bill. Marie Marx from Legislative Legal Services was online to review the issues.

MARIE MARX, ATTORNEY, LEGISLATIVE LEGAL SERVICES (via teleconference), spoke of one of the services that legislative Legal provided was to identify issues and concerns to help the legislature make informed decisions. Her memo, dated March 5, 2021, outlined some legal issues she found in reviewing HB 93, the GO Bond bill. There were 3 main areas of concern. The first related to the single subject rule which had to do with a provision in the Alaska Constitution that required that substantive bills be confined to one general subject or idea.

Ms. Marx reported that, historically, the Alaska Supreme Court had viewed the rule very broadly and had allowed very broad subject matter to be in one bill. However, recently in 2010, the court struck down a piece of proposed legislation for failure to satisfy the single subject requirement. The concern was that HB 93 listed numerous and varied projects. The overarching general idea the governor identified in the bill was infrastructure.

Ms. Marx highlighted that infrastructure might work as a single subject but was very broad. If challenged, a court might find it to be too broad to be permissible. She prefaced her comments on the main areas of concern that existing caselaw did not provide a definitive answer on whether or not the bond authorization in HB 93 was constitutional. She could not predict what a court would do if it was challenged. Her comments in the meeting were simply to bring to the legislature's attention a few legal issues that raised some significant question marks.

Ms. Marx's recommendation regarding the single subject issue was that the legislative record clearly established how each of the provisions in HB 93 were related thematically. Failure to comply with the single subject rule could jeopardize the entire bill if it were challenged.

Ms. Marx relayed that the second issue she identified related to another provision in the constitution which limited the uses that might be made of money through the issuance of GO Bonds. It limited them to capital improvements. The bonds also had to be approved by voters. The definition of capital improvements meant something that was durable and permanent. There was an open question on whether maintenance especially ordinary or deferred maintenance would meet the permanency required to be a

capital improvement. There was a chance that issuance of the GO Bonds for some of the projects in HB 93 might be ruled unconstitutional if challenged. It was an open question. The Alaska Supreme Court had not opined on the issue. However, it had provided an opinion that capital improvements were things that were permanent and had given examples of buildings, schools, and roads.

Ms. Marx addressed the third issue which related to project specificity. There were two statutes that required GO Bond bills to specifically identify the scope of every project, its location, and the amount allocated to the project. The reason the statute was in place was because without the specificity, there was a risk that the bond proceeds could be used for something that was not a capital improvement, therefore, violating the Alaska Constitution. Her recommendation was that anything that was not specifically identified (she thought there were a couple of projects that identified funds rather than projects) be listed out specifically to make sure they were not used in violation of the constitution.

Ms. Marx returned to her second point. She recommended that the legislature clearly establish how each of the projects in HB 93 constituted a capital improvement. She was available for questions.

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Representative Rasmussen asked if the definition of a permanent capital investment or improvement meant that the project had to be a new project or whether it included repairs or maintenance on something such as an existing building or road.

Ms. Marx responded that Representative Rasmussen asked a very good question. Significant case law had not been established on the issue. In the case of the City of Juneau versus Hickson, the court noted there was no definition for capital improvement in the Alaska Constitution, therefore the state used the plain meaning of the terms. Capital was generally associated with value represented by real or personal property in some form with relative permanency. Broadly, improvement meant betterment. The court case gave examples of streets, bridges, harbor facilities, municipal buildings, schools, libraries, and public utilities. The items had sufficient permanent character.

Ms. Marx continued that there had been attorney generals' opinions that indicated things like trucks did not have the required permanency and generally were not considered a capital improvement items. There was a question about whether equipment would meet the permanency requirement to be a capital improvement. There was an attorney general's opinion that stated bonds could not be issued for the repair of an existing facility like ordinary repair or road maintenance as opposed to the construction of new ones. While the supreme court had not made such rulings there was an attorney general's opinion supporting that bonds had to be used for new or major construction. The more major the maintenance and the more major the construction, the more likely a project would be considered an improvement.

Representative Rasmussen asked if it was possible for Ms. Marx to provide the attorney generals' opinions to the committee. Ms. Marx responded in the affirmative.

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Representative LeBon asked if she had the list of projects available if he were to ask Ms. Marx a question about a specific project on the list. Ms. Marx responded that she had the list of projects in the bill and access to the supporting documents which would provide a complete picture. She was happy to conduct a further investigation if the representative wished.

Representative LeBon turned to page 2 of the bill. He referred to a statewide firebreak construction program in the amount of \$20 million. He wondered if it was a capital improvement project. He also pointed to a recreational trail construction project from Fairbanks to Seward. He suspected it also fell into the broad category of capital improvement. Ms. Marx responded that just from the description in HB 93 which referred to a statewide firebreak construction program, she could not offer an opinion without additional information.

Representative LeBon speculated that if the state cut a pathway into the woods to provide a firebreak and did not maintain it, the capital improvement might disappear.

Representative Rasmussen responded to Representative LeBon's point. She recalled the legislature approving

funding for a firebreak construction program in the previous year. In 2019, when she was on the Natural Resources Finance Subcommittee, the committee over-funded what the department thought was needed for fire suppression activities. There was over \$100 million in supplemental costs due to extreme wildfires. She was aware that the legislature increased the funding on that project, but she did not know the level reached \$20 million. She was uncertain it was appropriate to fund it through a GO Bond proposal.

Representative Edgmon asked if Ms. Marx had looked at previous bond issuances approved by the legislature and benchmarked them against the issues she had pointed out, such as the single subject rule. He suggested that no matter what package was offered, there would be an element of an open question aspect from a legal standpoint given the constitutional and statutory parameters.

Ms. Marx replied, "Absolutely." Her job was to bring the issues to the legislature's attention. Ultimately it would be up to the legislature to decide what to move forward. The bonds would also determine how to weigh the risks. She had pulled the most recent issuances. In 2012, there was an issuance with a single subject of transportation; in 2010, there was an issuance with a single subject of education; in 2008, there was an issuance with a single subject of transportation; and in 2002 there was an issuance of a single subject of education/museum. None of the issuances were challenged to her knowledge, and they fell into a recognizable single subject. She believed ordinary and deferred projects were a part of the issuances. In the past, there had been GO Bond projects that moved forward in light of a gray area.

Representative Merrick invited Mr. Mitchell to comment.

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Mr. Mitchell responded that all of the bond issues that Ms. Marx brought up had not been challenged. He agreed with her that there were deferred maintenance and regular maintenance. He recalled a repaving project in Juneau which was a routine capital improvement maintenance project. They were not as varied in the types of projects as was pointed out.

Co-Chair Merrick thanked Mr. Mitchell and Ms. Marx for their participation in the meeting.

Ms. Schultz relayed that there was a spreadsheet in front of members that contained a summary of the project listings and a significant packet of back-up materials. She noted there were individuals online available to answer detailed questions about some of them but not all of them.

Representative Johnson had question regarding the Ambler Road [The West Susitna Access Project]. She asked Ms. Schultz to identify what construction activity would be included in the project if it was funded. Ms. Schultz deferred to Mr. Weitzner, the executive director of the Alaska Industrial Development and Export Authority (AIDEA).

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ALAN WEITZNER, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (via teleconference), indicated that the project request for inclusion into the GO Bond was comprised of two phases. There was specific construction activity. He was looking into ways of meeting the requirements for the capital improvement and project specificity. He explained that what was being proposed was approximately \$4 million dedicated to creating an all-season road in replacement of the Fish Creek Development portion of the winter road access from the West Susitna Parkway into the Fish Creek Management Unit. It would also incorporate a bridge access across the Little Susitna River to the management plan area.

Representative Johnson asked if the road was similar to the road at the Red Dog Mine. She wondered if it would be a toll road. Mr. Weitzner responded that she was correct. The Alaska Industrial Development and Export Authority was planning to use a private-public partnership structure with private sector investment and to work hand-in-hand with the Mat-Su Borough for the development of the road. It would be a similar type of structure to DeLong Mountains Transportation System and also very similar to the Ambler Access Project.

Representative Wool asked if the road would be used for commercial access only, specifically for mining. Mr. Weitzner responded that the road would allow for broad public access along the route which was a requirement for

the borough. The road would allow for broad access between Port Mackenzie and the road network system to links across the Little Susitna River and the Big Susitna River into the West Susitna Area to the Yentna Mining District. It crosses several resource areas within the borough. The intent of the tolls or use portions of the road (what was supporting the financing) would come from the industrial and agricultural access use. There were other services being provided by the road including fire retention, timber access or the borough, and the public's access for recreational activities.

Representative Wool asked who would be paying the toll. He wondered if user fees would be limited to commercial activities or whether fees would also be assessed for recreational use. Mr. Weitzner replied that the toll would be limited to commercial usage which would be the higher volume traffic. It would follow some of the structures the state had in place with DeLong Mountain Transportation System and Ambler Access. Local communities and the local public had rights of use. He noted access was limited and controlled because of the commercial traffic in place. However, they had rights of use and access that would not be obligated to make payment as long as usage remained under a certain level.

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Representative Josephson thought he heard Mr. Weitzner mention the the Ambler Road would be open to the public which was not part of the plan several years ago. He asked if he was correct. Mr. Weitzner indicated that his example of the West Susitna was the local community's access to the infrastructure. He concurred that the Ambler Access Road was not in any case going to be a public road. He elaborated that AIDEA had permitting in place with the Bureau of Land Management (BLM) and the National Park Service. Ultimately, AIDEA was working with the state and private land owners on a controlled access industrial only road for the Ambler Access Project.

Representative Josephson asked if the Chuitna River Pac Rim Development was part of the Yentna Mining District. Mr. Weitzner did not know.

Representative LeBon had a question about item 2.

Vice-Chair Ortiz asked if the committee was supposed to ask questions rather than hear a presentation.

Co-Chair Merrick clarified that the intention of the meeting was to have a high-level overview of the projects. She thought it would be best to allow for the presenter to continue for the sake of time.

Ms. Schultz moved to item 2. The item reflected the Houston Middle School Replacement which was effectively destroyed in the 2018 Earthquake.

Representative LeBon indicated that the Houston Middle School Replacement Project was located in the Matanuska-Susitna Borough. He wondered if there was an expectation that the borough would ask property owners to bond the school in some fashion to pay for its replacement. Ms. Schultz replied that the amount of \$9 million in the GO Bond was reflective of the amount that would not be matched by the Matanuska-Susitna Borough. The amount was not the total cost of the project.

Representative LeBon clarified that there was an expectation that if the bill were approved and the \$9 million remained in the GO Bond it would be based on residents of the borough voting to tax themselves to make up the difference. Ms. Schultz could not speak to Representative LeBon's question. She was aware that the \$9 million was the remaining amount of the total cost of the project. She could follow-up with an answer. She also noted that Ms. Teshner from the Department of Education and Early Development (DEED) was available and might be able to answer his question.

Representative LeBon wondered if the borough had any skin in the game. Ms. Schultz reported that item 3 was the major maintenance grant funds for schools in the amount of \$25 million. Ms. Marx had touched on the item briefly with some concern. Listing a deposit into a grant fund or a generalized non-specific appropriation could be problematic. The reason the administration thought the amount was an appropriate use of a GO Bond project was because there was a specific school major maintenance list that she included in members' packets. The school major maintenance list was developed with input from DEED and school districts through a rigorous rating process to determine which projects had the highest need. The \$25

million would fund the first 6 projects on the list. Representative LeBon would look at the list.

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Representative Rasmussen asked if the Department of Law had weighed in on whether the appropriation would pose a legal challenge.

Ms. Schultz responded that Department of Law had also expressed similar concerns as Legislative Legal Services. There was not clear case law on the item. It was the administration's perspective that because there was a statutorily defined list and a process it was acceptable. She suggested listing out specific projects from the school major maintenance would be a good option.

Representative Josephson noted the Kasayulie decision. He wondered if a litigant could argue that the cost of item 3 should be borne by the state rather than the tax payer. He wondered if the notion had been discussed. Ms. Schultz was not comfortable speaking to the legal issue. Representative Josephson suggested it might be something that deserved a follow-up.

Ms. Schultz moved to item 4 regarding Mt. Edgecumbe. Within DEED there were repairs needed for Mt. Edgecumbe High School in Sitka. The amount of \$7.9 million would be used for major deferred maintenance.

Ms. Schultz relayed that the Department of Health and Social Services (DHSS) had three projects on the list. The first was item 5 for the Fairbanks Pioneer Home roof and flooring replacement in the amount of \$2.4 million.

Ms. Schultz reported that the second project for DHSS was phases I and II of the Fairbanks Youth Facility in the Division of Juvenile Justice. The amount of \$18.9 reflected a total rebuild of the facility. Phases I and II would complete the project.

Ms. Schultz relayed that the third project for DHSS was item 7 - the Palmer Veterans and Pioneer Home roof and flooring replacement.

Ms. Schultz continued to item 8 which was \$19.5 million for the Alaska Vocational Technical Center (AVTEC) upgrades in

Seward. The appropriation reflected major maintenance and repairs at the AVTEC campus.

Ms. Schultz conveyed that item 9 was a Department of Military and Veterans Affairs (DMVA) project for the the Alaska Public Safety Communications Services system upgrades (previously known as the SATS and ALMAR system) in the amount of \$12 million. The funds would be used to expand and repair the existing system.

Ms. Schultz reported item 10 related to the Alcantra Armory and Arc-Flash improvements within DMVA. The armory in Wasilla was the back-up location in case JBBER could not be used as a headquarter facility. In order for Alcantra to be well suited for that purpose it needed a major overhaul and repairs.

Vice-Chair Ortiz thought the federal government was responsible for armories. He wondered if it was customary for the state to fund a federal facility. Ms. Schultz responded that the state would receive a 50 percent federal match for the project. It was customary for the state to receive a considerable federal match for many of its DMVA projects.

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Ms. Schultz explained that item 11 and item 12 were similar. They were both DMVA facility shelter replacement and improvements projects. Item 11, the Heaney Range Shelter was falling apart and needed to be replaced. Item 12, the Summit Lake facility, needed extensive foundation repairs and would likely be rebuilt.

Vice-Chair Ortiz asked if range implied a shooting range. Ms. Schultz responded that it was not a shooting range. It was a DMVA communications type of shelter. She could provide the committee with more detailed information.

Ms. Schultz reported that the last DMVA project was item 13, the statewide tower lighting replacement project. The lighting on all of the DMVA towers would be replaced with LED lights for \$600,000.

Ms. Schultz moved to the Department of Natural Resources beginning with item 14. The project in the amount of \$2.1 million was for the Arctic Strategic Transportation and

Resources (ASTAR) project. The amount would pay for phase II of a 4-phased ASTAR project. Phase II was mostly geological and gravel survey work to evaluate the most opportune resources and best plans for transportation corridors in the North Slope area.

Ms. Schultz moved to item 15, the Fairbanks to Seward multi-use recreation trail for \$14.2 million. It was the administration's consideration that building a new trail or improving the existing trail functionality was a qualified capital project. There was a detailed breakdown of the elements of the trail in members' packets by the Division of Parks.

Representative Johnson asked if there would be an opportunity to ask more questions at the end. Co-Chair Merrick thought questions could be asked per item.

Representative Johnson returned to item 2, the Houston Middle School replacement project, and whether the borough had skin in the game. She explained that the school had been damaged by an earthquake. The Mat-Su Borough had earthquake insurance. She continued that because Anchorage did not have earthquake insurance, Mat-Su Borough was penalized by having to pay for emergency money not coming in. She reported that the Mat-Su Borough had paid for most of the repairs to the school. She confirmed that the borough definitely had skin in the game. She indicated the amount of \$9 million was the remaining cost of the project. The amount being requested was a small piece of the total cost of the project and contribution by the Mat-Su Borough. She wanted to make sure the information was on record.

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Representative LeBon returned to the \$25 million for school construction in item 3. The list had some ranking of projects. The first five projects totaled \$25 million in Galena, Craig, Anchorage, Kake City, and again in Anchorage. The list had over 100 priority schools on it. He wondered if voters would know what specific school projects would be funded with the \$25 million.

Ms. Schultz responded that as the bill was written if the vote was taken the following day, the list would not be provided. However, the statutory formula funding mechanism of the school major maintenance fund would result in going

down the priority order list. She opined that for full transparency and making sure voters had all of the information in front of them when voting, she did not see the harm in ranking the specific projects on the list. She spoke of one of the advantages of making an appropriation to the school major maintenance fund versus making specific appropriations for each school was that it allowed for some flexibility of funding. If a project came in at less than projected or greater than projected it allowed for budgetary elasticity.

Representative LeBon noted there was a project listed for the Eagle River Elementary School improvements. However, it asked that there would be a participating share of \$2.8 million. He wondered if the community of Eagle River was expected to contribute to the project. He wondered if the community would have to initiate a community bond to have skin in the game. Ms. Schultz deferred to Heidi Teshner from DEED to speak to the participating share and state share.

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HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (via teleconference), responded that the participating share portion was the district's share required to provide on all projects. It ranged from 2 percent and 35 percent based on statute. She explained that when districts submitted their applications for capital improvement projects for either major maintenance or school construction grants, they were aware of the required participating share.

Representative LeBon asked whether the state would provide 100 percent of the funding if the school was located in an unorganized area with no taxing authority. Ms. Teshner replied that a participating share could come from any source besides Chapter 1411 funding (any kind of funds received for construction or major maintenance). She provided an example. Any local funding or other types of grants such as non-profits providing funding to meet the share would be allowable in unorganized boroughs.

Representative LeBon asked if the Regional Educational Attendance Area (REAA) fund be available for the matching portion. Ms. Teshner responded in the negative.

Vice-Chair Ortiz referred to item 15 regarding trail development in a broad area over several districts. He was supportive of access to trails. He wondered how it was determined that a \$13 million appropriation for trails had a higher priority than school major maintenance. He suggested that, because the education list was so long, it might be better to apply the \$13 million for trails to the education list. He wondered if an assessment had been done. Ms. Schultz replied that \$25 million barely scratched the surface of addressing the total list of deferred maintenance projects for schools. The GO Bond list was put together with several competing priorities in mind. Addressing the state's deferred maintenance liability which was over \$2 billion for all state facilities versus investing in things that would diversify and grow the state's economy, such as the trail project, were weighed extensively. Regional diversity, timing, existing liabilities, and new investments were all considered.

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Representative Rasmussen directed her question to DEED. She asked if the \$9 million for the Houston School replacement required a participating share. Ms. Teshner replied that the project would not require a participating share since it was being funded through a GO Bond.

Ms. Schultz moved to item 16 within the Department of Natural Resources (DNR). The amount of the project was \$2 million for statewide park sanitation and facility upgrades. Many of the facilities were park restrooms.

Co-Chair Foster understood there was \$2 million for sanitation facilities in the park. There was also \$17 million for Bartlett and Moore Hall modernizations for restrooms and sanitation infrastructure [Item 54]. He wondered if there was any consideration to adding more money to village safe water projects, as there was no funding in the GO Bond. He thought the governor had \$10 million or \$15 million UGF elsewhere in the budget. The amount was the minimum match requirement for \$40 million in federal dollars for village safe water projects. The amount really only scratched the surface. He asked Ms. Schultz to comment.

Ms. Schultz thought Co-Chair Foster made a very good point that the village safe water match was in the capital

budget. It was also financed through an Alaska Housing Finance Corporation (AHFC) bond proposal. She indicated that when the administration put the list together it was thought of wholistically in terms of all of the capital appropriations across all of the appropriation vehicles. While Co-Chair Foster was correct that there was not significant focus on rural sanitation in the GO Bond, it was funded in the regular capital budget.

Ms. Schultz reviewed item 17 within DNR. The amount was \$20 million for the statewide firebreak construction. It was true that when trees were cut down, they grew back. There was a listing of the department's prioritized firebreak construction items with specific detail in members' back-up packet on page 23, following the generic capital write-up.

Representative Rasmussen did not see a list or description page for item 16, the statewide park sanitation and facility upgrades. She asked if OMB had a breakdown of the proposed locations. Ms. Schultz thought the list existed. She would follow through with a list.

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Representative LeBon returned to the firebreak construction program. He asked how much of the \$20 would be used to return a prior firebreak to a usable state after allowing it to become overgrown. Ms. Schultz referred to the page following page 23 without a page number. She directed attention to the first 6 items referring to maintenance of existing firebreaks. The remaining projects were new firebreaks.

Ms. Schultz reviewed item 18 for DNR, the wildland fire engine replacement for \$250,000. She also noted that the packet was slightly out of order. The statewide park sanitation and facility upgrades information followed the firebreak construction program in members' packet.

Ms. Schultz indicated that item 19 for DNR was the replacement of a wildland fire aircraft. The department was looking to purchase a replacement aircraft for firefighting efforts. She pointed out that in the project back-up the aircraft that the department prioritized was the Shriek Commander. The department no longer wanted to purchase that aircraft. Rather, it wanted to purchase a Cessna. If there

were more in-depth questions about aircraft, they could be directed to DNR.

Ms. Schultz moved to the Department of Public Safety there were two projects related to the Alaska Wildlife Trooper Marine Vessel replacement and repair. Item 20 was \$2.4 million to do some major repair overhauls on two of their larger vessels and some additional funding for medium and small class upgrades which was also related to item 21. Item 21 was for the replacement of two medium class vessels.

Ms. Schultz asked to speak more generally to the DOT projects. There were three general concepts. The first was road improvement projects based on the State Transportation Improvement Program (STIP). Also included were several port projects including community ports and deposits to the Municipal Harbor Maintenance Fund. Airport improvement projects were also funded and were based on the airport improvement list. The administration sought regional diversity and looked for high need areas in choosing projects. She addressed the items beginning with item 22.

Co-Chair Merrick directed Ms. Schultz to move to the University items. If there were any specific DOT items members wanted to discuss they could pose a question.

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Ms. Schultz moved to item 54 for the University of Alaska which was the Bartlett and Moore Hall modernization at the University of Alaska Fairbanks. The project was a major overhaul to the facility's plumbing and basic utility infrastructure for \$18.7 million.

Ms. Schultz reviewed item 55 which was a University of Alaska Anchorage building energy performance upgrade for \$10.9 million. It was another major deferred maintenance item for UAA similar to item 56 which was a large utility and retrofit for an existing UAA buildings. They were projects that would have to be done either way through the deferred maintenance list. However, the administration believed that the GO Bond was appropriate because of the magnitude of repair maintenance and because of the ultimate energy savings that would result from the overhaul.

Co-Chair Merrick asked if members had specific questions related to the projects under the DOT line items.

Representative Edgmon noted that the other day the committee heard a presentation from DOT that suggested there was \$320 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act and CRRSAA funding. However, he supposed that none of that funding could be used as matching funds for projects in HB 93. He asked if he was correct.

Ms. Schultz responded that he was correct. Federal funds could not be used to match federal funds. Since the list had gone public, DOT had been able to identify other funding sources for several of the projects including possibly the CARES Act FAA funding or private match funding. As the committee considered the legislation, OMB and DOT were happy to provide additional detailed information specific to the DOT projects where there might be better DOT projects somewhere else.

Representative Edgmon clarified that the DOT project list was fluid. Ms. Schultz liked Representative Edgmon's characterization.

Vice-Chair Ortiz had a follow up on the same topic. He recalled some FAA CARES Act funds that were unincumbered, and the subcommittee recommended might be used for rural airports. He referred to a line item containing the Cordova and Bethel airport projects. He wondered if DOT might be able to find resources in other areas for the projects rather than a bond package. Ms. Schultz responded, "Correct." She noted that the two airports were specific projects that could be funded through other sources.

Representative Rasmussen speculated that utilizing a federal match should be a goal of the legislature. She thought it looked like, out of all of the projects on the list, about \$110 million in projects would receive over \$1 billion in federal funds with a state match. She did not think a GO Bond was the best use of state resources to pay for certain projects. She suggested having more discussion with DOT about federal match dollars.

Representative Johnson made additional comments about the Houston High School. She reported that the Mat-Su Borough

already had \$25 million invested in the replacement project. It was an urgent project.

Co-Chair Merrick asked Mr. Bell to review the fiscal notes.

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CONNOR BELL, ANALYST, LEGISLATIVE FINANCE DIVISION (via teleconference), indicated there were two fiscal notes associated with the bill. The first was from the Office of the Governor within the Division of Elections. The fiscal note estimated the cost of administering a special election at about \$2 million. Half of the amount would be an FY 21 supplemental and the other half would be an FY 22 appropriation. The special election, according to the bill language, would be held 90 to 120 days after the end of the regular session which would put the election in late July or late August.

Mr. Bell reported that the second fiscal note was from the Department of Revenue within the Treasury Division for the cost of bonding. The division estimated about \$1.8 million in associated costs such as costs from ratings agencies, bond counsel attorneys, and marketing. He added that beginning in FY 22 the estimated payments would be about \$22 million per year. As Mr. Mitchell noted, the fiscal note assumed a single bond sale. However, due to different amortization schedules there would have to be multiple bonds scheduled. The fiscal note also mentioned that not all projects might be eligible for tax exempt status. Therefore, some projects might be subject to the alternative minimum tax in which case there might have to be a separate series of bonds.

Representative Edgmon asked that in order to do a statewide special election it would need to occur in late August or late September as opposed to late July or late August. He asked where the money would come from for the administration to promote the GO Bond proposal. Ms. Schultz indicated that OMB did not feel an additional appropriation was necessary for advertising costs to promote the election. There was ample funding within the governor's office making it unnecessary to put it in a fiscal note.

Representative Edgmon only brought up the issue because many of his constituents were out hunting in the fall when the special election was planned.

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Representative Wool mentioned the bond of 2012 and wondered if it was voted on in a special election. He asked if advertising monies had been needed. He noted low turnouts in October. He wondered if additional marketing would be needed. Ms. Schultz thought the vote took place during a regular election.

Representative Wool asked what the circumstances would be to hold the vote in the regular election. Ms. Schultz explained that for the vote to take place during a general election it would have to occur in the following year. The haste of having a special election was so that the bond package could be approved more quickly.

Representative Thompson noted that there was a significant amount of money in the bond package for projects requiring a federal highway dollar match by the state. If the bond package failed, he wondered if the state would be behind on all of the projects. He wondered if the state would lose a year by having to wait to get the items in the capital budget in the following year. Ms. Schultz replied that the state was already meeting its federal highway administration match in the regular capital budget. It would not be a lost opportunity if the state did not get the GO Bond approved in the current legislative session. It might bring up the question about the state double funding the match. It was not necessarily the case. If the state funded the federal highway projects in the GO Bond bill the state would be tying up future federal funds for the projects. It would essentially bounce them up the priority list.

Co-Chair Merrick thanked all of the presenters and reviewed the agenda for the following meeting.

HB 93 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

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The meeting was adjourned at 3:04 p.m.