HOUSE FINANCE COMMITTEE
February 11, 2022
1:33 p.m.

1:33:16 PM

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 Bryce Edgmon
Representative Andy Josephson
Representative Sara Rasmussen (via teleconference)
Representative Steve Thompson

MEMBERS ABSENT

Representative Ben Carpenter
Representative DeLena Johnson
Representative Bart LeBon
Representative Adam Wool

ALSO PRESENT

Ruth Kostik, Administrative Services Director, Department of Environmental Conservation, Office of Management and Budget, Office of the Governor; Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Carrie Bohan, Facilities Services Program Manager, Division of Water, Department of Environmental Conservation; Melanie Arnolds, Director, Facilities Services, Department of Transportation and Public Facilities.

SUMMARY

PRESENTATION: VILLAGE SAFE WATER PROGRAM

OVERVIEW: DEFERRED MAINTENANCE BY THE OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Foster reviewed the meeting agenda.

^PRESENTATION: VILLAGE SAFE WATER PROGRAM

1:33:55 PM

RUTH KOSTIK, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself and staff.

CARRIE BOHAN, FACILITIES SERVICES PROGRAM MANAGER, DIVISION OF WATER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (via teleconference), introduced a PowerPoint presentation titled "Department of Environmental Conservation House Finance Committee," dated February 11, 2022 (copy on file). She began on slide 2 and discussed the program's mission to support rural communities in their efforts to develop sustainable sanitation facilities. She discussed how the mission was accomplished as follows:

- Funding planning, design and construction of water, wastewater and solid waste projects
- Providing project management and oversight for grant funded projects

Ms. Bohan moved to slide 3 and discussed rural sanitation efforts. She read from the slide as follows:

- Work with partners to support communities in their efforts to build technical, financial, and managerial capacity
- Provide water and wastewater system operator training and certification
- Remote Maintenance Workers
- Funded through federal grants from EPA and USDA and associated state match in the operating budget
- 15 Remote Maintenance Workers at DEC and regional health corporation provide onsite training and technical assistance
- Emergency response and support
- Fund RUBA Program to provide technical assistance regarding financial and managerial aspects of utility

operations Village Safe Water does not provide funding for ongoing maintenance and operations of systems

1:39:26 PM

Ms. Bohan turned to a multicolored chart on slide 4 which illustrated the funding sources for the Village Safe Water (VSW) program. The first funding source was through a capital improvement project (CIP), which was administered by VSW. The CIP funding was comprised of State of Alaska funds and federal funds, both of which required a 25 percent state match. Projects were evaluated every spring, and some were selected for funding. Once projects were selected for funding, funds were allocated to either the Alaska Native Tribal Health Consortium (ANTHC) or VSW. She elaborated that regardless of the funding source, the agency could use the funds to support projects. The other funding process was the Sanitation Deficiency System (SDS), which combined funds from the Indian Health Service (IHS) and "Indian and tribal set asides" from the Environmental Protection Agency (EPA). In the systems, projects were evaluated and scored, and once awarded, the fund was distributed to either VSW or ANTHC depending on which was providing support to the community.

Ms. Bohan moved to slide 5 titled "Village Safe Water: Funding History." She explained that the colors on the chart corresponded to the funding agencies that were detailed in the previous slide. There had been a gradual increase in funding primarily in the yellow category, which reflected the EPA, and the light blue category, which reflected IHS. Over the last few years, there had also been some new contributions from the Denali Commission, in addition to various COVID-related funding sources. She highlighted the navy blue section, which showed an increase in funding due to the American Rescue Plan Act (ARPA). The ARPA funding was primarily being used by IHS and ANTHC to develop comprehensive planning documents for the 30 unserved communities in Alaska as well as look at potential alternatives for providing full service and developing cost estimates for the projects.

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Ms. Bohan continued to discuss the funding history on slide 6. The light blue portion for FY 23 was IHS funding, which had grown significantly as a result of the federal

infrastructure bill [Infrastructure Investment and Jobs Act (IIJA)]. The program anticipated that funding for the next five years would look similar to the federal amount in FY 23 (for the life of the infrastructure bill).

Representative Josephson referred to the federal infrastructure funding for FY 23 and asked for more information about the matching requirement.

Ms. Bohan replied that the funds would go through IHS and there was no match requirement. She explained that VSW would only become involved in the administration of the funds if a community supported by VSW for engineering services was a recipient of some of the funds.

Representative Josephson asked if it was the legislature's job to offer support to the program. He asked how much the legislature should be involved.

Ms. Bohan did not perceive that the legislature had a specific involvement at the current time. She would share some of the nuances of how the funding would be allocated later on in the presentation. She noted that VSW funding had a required state match.

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Ms. Bohan advanced to a pie chart on slide 7 showing the rural Alaska sanitation funding need. The information was collectively entered into the sanitation deficiency database administered by IHS. As projects developed, the projects would be ranked and scored within the system. The chart identified the type of project and type of need addressed by the project. The blue portion of the chart was the greatest health-based need and reflected first time service and the orange reflected upgrades to address substantial health threats.

Co-Chair Foster noted that the sanitation need had increased and the infrastructure had continued to deteriorate since he started in the legislature in 2010; however, the legislature had not been keeping up with funding. The funding need amount had increased from $1 billion to close to $2.3 billion. He stated that people were having to ration water, especially during the COVID-19 pandemic, and he hated to think of the situation. He added that Unalakleet had experienced a problem with a low water

tank and everyone had not been able to wash their hands as much as they should have. He stressed that the funding should be a high priority in the budget.

Ms. Bohan turned to a list of unserved communities on slide 8. Some of the communities had asterisks next to the names, which indicated that the community had been funded for full service. In some situations, the service would come in the form of wells and septic tanks because it was deemed the most reasonable solution in the communities. There had been some gradual progress and she expected to see more rapid progress with the influx of IIJA funding. She moved to slide 9 and referred to Handout 1 in members' packets titled "Unserved Rural Alaska Communities," dated February 4, 2022 (copy on file). She explained that the handout gave more detail on the unserved communities and the estimated cost to provide pipe service to each of the communities. She highlighted the estimated monthly user rate and noted that the financial burden to customers was important to consider when looking to provide a higher level of service.

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Ms. Bohan continued to address slide 9. She read from the slide as follows:

- Cost to provide running water and sewer to individual homes in a village for the first time
  - $500 - $750 thousand per/home
- Projects typically last 5 -10 years to completion, depending on
  - Size and complexity of the project
  - Availability of funds
  - Ability of community to meet ongoing construction funding conditions

Ms. Bohan explained that the short construction season, weather, and transportation difficulties could be challenging to overcome, particularly in communities that had not yet been served. She turned to slide 10 and shared some statistics on projects funded by VSW in FY 22. She read the information on the slide as follows:

- Planning Projects
  - $1.9 million funding made available
  - 19 studies for 19 communities
  - Project range: $75,000 - $180,000

- Construction Projects
  - $69.7 million funding made available
  - 9 ongoing construction projects and 10 new construction projects
  - Project range: $80,000 - $21.1 million
- IHS & EPA Tribal Construction Projects
  - $55.2 million funding made available including $1.3M from Denali Commission
  - 17 construction projects
  - Project range: $563,000- $8.8 million

Ms. Bohan highlighted that VSW made a $20 million contribution to a project in Tununak, although the project would likely be closer to $55 million in the end. Additionally, Unalakleet had long suffered due to challenges related to its drinking water system, which was one of the oldest in the state. She reported that VSW had provided over $10 million to begin the process of completely replacing Unalakleet's water distribution system.

Ms. Bohan turned to slide 11 and discussed VSW's funding eligibility. The VSW statute offered a definition of "village," which established eligibility for the program. She read from the slide as follows:

- Communities are eligible for one VSW funded planning project at a time
- An approved planning document and a demonstration of a minimum level of capacity are required for design and construction funding
  - Ensure the community has the technical, financial, and managerial capacity to operate and maintain the facility in the long term
  - Requirement of all new public water systems per the Safe Drinking Water Act
- First time piped service projects also require an approved Sustainability Plan

2:00:10 PM

Ms. Bohan spoke to funding eligibility on slide 12. She shared that the Operations and Maintenance Best Practices capacity assessment tool had been developed in conjunction with ANTHC and the Rural Utility Business Advisor (RUBA) program. The assessment tool took about two years to

develop and was implemented in 2015. In the past, there were several assessment tools for rural sanitation purposes, and communities found the differing criteria to be confusing and frustrating. It took some communities years to demonstrate a capacity level, which put funding in jeopardy and often meant that funds had to be reallocated to other communities. She explained that in developing best practices, DEC wanted to craft one tool that would be used for all rural sanitation funding and allow all of the agencies to "speak one language." The tool that the department developed involved a series of categories, and she pointed to Handout 2 which showed the scoring criteria for construction projects (copy on file). Many of the previous capacity evaluation tools could be completed without involving the community in any way. The department wanted to ensure that the community was part of the discussion and involved in the entire assessment process. Under the new assessment tool, communities were scored twice per year based on information provided to DEC and RUBA. Project eligibility for VSW was determined by both the type of project being proposed and the level of service currently in place in the community. The eligibility requirements were shown on the slide in a chart, and she briefly discussed the criteria.

2:05:18 PM

Co-Chair Foster stated that he had heard concerns about the RUBA scoring system. He stated it was necessary for the legislature to ensure that money was being spent wisely and for a community to demonstrate capacity and its ability to maintain a system in the long run before receiving funds. He had heard repeatedly from communities that the RUBA system needed to be revamped and that it was too stringent. He wondered where the line was as far as eligibility requirements went and wished it could be more flexible. He had heard some people say they would like to see the Denali Commission in charge of sanitation for rural Alaska, but he did not fully understand the intricacies of the suggestion. He asked how many communities had recently been denied because they did not meet RUBA scoring requirements.

Ms. Bohan did not have the details on hand. She could share the recent scores and point to the communities that would be eligible for VSW funding based on a best practice score. She shared that it was not the program's goal to deny any funding or improved service; however, it was necessary to

have some established rules in order to make fair and equitable funding decisions. The federal safe drinking water act required states to ensure that all public water systems had adequate technical and managerial capacity before the system was permitted to be constructed. She imagined that in moving forward with the funding through IHS, there would be an opportunity to look at how the evaluation was conducted. She stated it was the program's responsibility to set communities up for success in the long run. She was not certain that lower expectations would be in the best interest of the communities but examining the evaluation process and considering alternatives was something that the program was willing to entertain.

Co-Chair Foster agreed that the purpose of the system was to provide health and safety in communities. He stated that lack of adequate training could create larger problems for a community. He did not have the answers but agreed that there had to be a system in place to assess where funding was most needed.

2:13:59 PM

Representative Thompson apologized for stepping out for an emergency call. He referred to slide 11 and the statement that communities were eligible for one VSW funded planning project at a time. He asked if it would cost more money to only focus on one project per year.

Ms. Bohan replied that it was a very interesting point. The decision to limit the number of projects that were allocated per community was made in order to spread the money between multiple communities and ensure that one community was not receiving the bulk of the money at any given moment. She explained that planning documents were intended to focus on one specific issue, and to delve into great detail as to possible solutions and costs. She had funding discussions with funding partners about broadening the scope of the planning projects moving forward, and there might be an opportunity to fund more than one project at a time in a community. She stated it was early in the process of understanding how the federal IIJA funding would be allocated, but strategic discussion with the funding team were already occurring in anticipation of the funds.

Representative Thompson was glad to hear the department was considering the issue. He thanked the department for working on the topic.

Ms. Bohan advanced to slide 13 which detailed the operation and maintenance capacity tools broken down into three categories: technical, managerial, and financial. She reminded members that Handout 2 detailed the full scope of the scoring criteria. Under the technical category, she explained that DEC would begin by looking at requirements that were already in place for communities for other purposes, such as the requirement for public water systems to have certified operators. Preventative maintenance was the one component that a community had absolute control over. The department looked at whether the system was in compliance with drinking water regulations and specifically whether the operators were conducting the required monitoring and reporting.

Ms. Bohan continued that under the managerial category, the utility management training program offered a wide range of trainings each year. Although many trainings were now offered online, travel reimbursements and scholarships were provided to utility operators in the past. The trainings were easy to access and were a valuable tool for anyone working in the utility field. In the financial category, actions such as passing a budget, collecting revenue, collecting workers' compensation insurance, and compliance with payroll liability regulations were existing obligations of a community. Whenever possible, the department tried to base its criteria on a community's existing duties. She noted that best practices were used for other purposes as well, such as analyzing trends in a community over time.

2:21:30 PM

Ms. Bohan turned to slide 14 and discussed VSW project assessments. The department collected applications for both planning and construction projects every spring. All projects were evaluated by a committee comprised of federal funding partners, representatives from VSW, and representatives from ANTHC. Projects were evaluated based on criteria in Handout 3, titled "Capital Improvement Project Construction Project Scoring Criteria" (copy on file). She read from the slide as follows:

- Project grant applications are scored primarily on how they address critical public health needs and the community's capacity to operate and maintain facilities
  - Beneficial health impact provided by the project
  - Current level of service
  - Technical, financial and managerial capacity
  - Relationship to other project phases
  - Application quality
- High scoring projects added to the Multi-Year Priority List

Ms. Bohan continued that the program may choose to only fund the design phase of a construction project, which would allow more than one project to be funded at a time as well as offer a more concrete cost estimate for construction projects. She added that once a project was added to the multi-year priority list, it would be funded to completion even if it had not received full funding in the first year.

2:25:00 PM

Ms. Kostik reviewed VSW's capital budget request of $72.2 million for FY 23 on slide 15. The amount was made up of $52.2 million in federal funds, a $19.5 million general fund match, and $500,000 of statutory designated program receipts (SDPR). The federal dollars reflected the funding for both the EPA infrastructure grant and the United States Department of Agriculture (USDA) rural development funding, which would flow into Alaska through the CIP process.

Representative Josephson asked if the $19.5 million match was typical.

Ms. Kostik replied that the match for the USDA and EPA was 25 percent. The $19.5 million match was a slight increase from the previous year and had been growing in recent years. She referred to slide 16 which showed the expected EPA dollar amounts in future years, and relayed that the EPA amounts should hold steady for the next three years and increase in 2026 and 2027.

Ms. Kostik discussed the federal infrastructure bill [IIJA] on slide 16. The bill appropriated $3.5 billion to IHS and it was anticipated that about $2 billion would be allocated

to Alaska. It was enough money to cancel out IHS's need discussed earlier in the presentation.

Vice-Chair Ortiz asked if the $19.5 million state match was part of the governor's match of roughly $125 million as seen in the capital budget.

Ms. Kostik answered the $19.5 million was currently in the capital budget.

Vice-Chair Ortiz asked for confirmation that the match was included in the $125 million figure in the capital budget.

Ms. Kostik responded that she assumed it was. She noted that Mr. Neil Steininger from the Office of Management and Budget (OMB) had confirmed the amount.

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Ms. Bohan elaborated on Ms. Kostik's information that the $3.5 billion allocated to IHS was taken directly from the sanitation deficiency system database. She assumed that the U.S. Congress had seen that there was $3.5 billion in the database in the prior year and that Alaska's portion was about $2 billion. She explained that was where the expectations had come from. She noted that the IHS funding had historically held cost cap restrictions that limited costs to a certain dollar amount per home. If a project exceeded the cost cap, the project was not eligible for IHS funding, and one of the primary reasons IHS funding had been a challenge was due to the restriction. The infrastructure bill had set aside the cost caps for $2 billion of the funding and it was fairly clear the intent of the bill was to provide first time service to unserved communities. However, there would be some ineligible mechanisms and it was critical for other funders to provide addition funding in order to ensure all components were covered.

Ms. Bohan turned to slide 17 regarding the Alaska Water and Sewer Challenge Project (AWSCP). She explained that the project was established in an attempt to find alternative solutions for pipe service. There had been an international call for teams to develop in-home systems to take advantage of water re-use in an effort to increase the amount of water that was being used by individuals on a daily basis. The increase in water use would also improve sanitation and

health. The goal was to create a system that could be implemented at a cost of no more than $160,000 per home and be easily maintained by the homeowner. The system that was chosen was created by the team from the University of Alaska Anchorage (UAA), and the next step was to install the system in the university's dorm facilities. The department had hoped to be further along in the process, but COVID-19 had caused some delays. There were compelling reasons to continue to move forward with the project, especially because it had been a success thus far.

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Ms. Bohan reviewed other water infrastructure funding in IIJA on slide 18. The state managed two revolving loan funds: one for drinking water, and one for wastewater, also known as clean water. She shared that the program provided low interest loans for eligible clean water and drinking water projects. Each year, the EPA provided capitalization grants for drinking water and clean water that were typically around $10 million each. The IIJA bill created additional supplemental funding and would allocate $18 million for drinking water and $20.1 million for clean water, each of which would require a 10 percent match.

Ms. Bohan turned to slide 19 and discussed other water infrastructure funding in IIJA. She read through the slide as follows:

- Emerging Contaminants
  - Eligible projects that address contaminants such as PFAS
  - FY2023 Capitalization Grants
    - $7.5m Drinking Water
    - $1.1m Clean Water
  - No State match
  - 100% loan subsidy issued as loan forgiveness
- Lead Service Lines
  - Eligible projects that address lead in drinking water FY2023 Capitalization Grant
    - $28.3m Drinking Water
  - No State match
  - 49% subsidy as principal loan forgiveness

Representative Josephson stated that the IIJA was generous and helpful for safe water and less helpful for resolving Per- and polyfluoroalkyl substances (PFAS) issues.

Ms. Bohan replied that she believed the statement was fair.

Co-Chair Merrick thanked the presenters.

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RECONVENED

^OVERVIEW: DEFERRED MAINTENANCE BY THE OFFICE OF MANAGEMENT AND BUDGET

2:40:42 PM

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, provided a PowerPoint presentation titled "State of Alaska Office of Management and Budget: Deferred Maintenance," dated February 11, 2022 (copy on file). He began on slide 2 and gave a deferred maintenance overview:

- Deferred maintenance is maintenance or repair projects that have been delayed or postponed due to lack of funds within an entity's normal operating budget cycle.
- State of Alaska property portfolio:
  - 2,400+ facilities (includes University)
  - 20 million square feet of space
  - 14 State Agencies
  - Type varies by Agency

Vice-Chair Ortiz asked if the 2,400 facilities included public school facilities.

Mr. Steininger did not believe the number included public school facilities. He would follow up to confirm.

Vice-Chair Ortiz asked if the state played a role in trying to alleviate local communities' costs associated with repairing school facilities.

Mr. Steininger agreed that the state played a role in repair via deposits into the Regional Educational Attendance Area (REAA) fund and school maintenance fund.

Mr. Steininger turned to slide 3 and reviewed funding recommendations and targets as follows:

- There is no one definitive rule on the level of preventive maintenance necessary to avoid deferred maintenance, but a 2012 National Research Council publication references a range of 2-4% of replacement cost value
- FY2021 replacement cost value (excluding University): $7,678,370.1
  - 1% = $76.8 million
  - 2% = $153.6 million
  - 4% = $307.1 million

Co-Chair Merrick asked what percentage level of deferred maintenance had actually been funded over the past 10 years.

Mr. Steininger replied that funding had been generally towards the lower end of the range. He noted that he had an upcoming slide that broke down the funding for FY 23, which was comparable to prior years.

Mr. Steininger moved to slide 4 and highlighted the governor's budget maintenance funding. In the FY 23 capital bill, there was about $29.6 million in funding for maintenance. The maintenance was made up of a few different deferred maintenance components: natural resources sanitation, fish and game and aircraft, courts, and general statewide funding that was intended for state facilities. Additionally, there was significant general obligation (GO) bond funding for University of Alaska housing deferred maintenance. The combined capital and GO bond totaled to about $48.2 million.

Mr. Steininger moved to slide 5 and stated that the deferred maintenance and GO funding was combined with the funding in the operating budget. Across all agencies, the amount that had been set aside in FY 23 for all routine operating maintenance was about $76.4 million. The total proposal for the funding was $134.6 million for FY 23.

2:47:20 PM

Mr. Steininger moved to slide 6 and reported that the state's backlog was about $603 million excluding the university. If the university was considered, the total

would be closer to $2 billion due to the university's significant size and deferred maintenance needs. The slide included a chart showing the breakdown of the backlog across various agencies.

Mr. Steininger turned to slide 7 and explained the statewide funding approach. He read through the slide as follows:

- OMB facilitates the collection of agency deferred maintenance lists
- State Facilities Council reviews and prioritizes deferred maintenance projects across executive branch agencies
- Facilities Council deferred maintenance workshops anticipated February through May, with goal of Statewide prioritized list to OMB May 2022
- Projects to be prioritized based on combination of significant factors including facility importance, building system, and urgency to create a *Project Index Value (PIV).

Mr. Steininger advanced to slide 8 and deferred to Ms. Melanie Arnolds.

2:50:01 PM

MELANIE ARNOLDS, DIRECTOR, FACILITIES SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), discussed slide 8 and the project ranking formula. The formula considered several factors and provided a ranking referred to as a Project Index Value (PIV). The PIV was determined by multiplying the following factors together: the Mission Alignment Index (MAI), which was the alignment of facility to an agency's mission; the system factor, which was the scale related to various building systems and their impact on building; and the need or the urgency and criticality for replacement. If known, other attributes were also considered, such as anticipated return on investments, matching funds, or eligibility as a finance energy savings performance project.

Ms. Arnolds moved to slide 9 to review the MIV. She read through the slide as follows:

- Mission Alignment Index (MAI) identifies the relative importance of a facility in relation to an agency's primary mission. Besides how critical the facility is to the agency mission it considers:
  - How capable is it to deliver services
  - How utilized is it, how many people, citizens or state services does it impact
  - Availability of other facility options at that location
- The most critical facilities of an agency are directly aligned with the agency's purpose to exist
  - Amongst multiple critical facilities within in an agency, there are still varying degrees
- Allows better risk management to programs, and guides investment and divestiture decisions
- Determined by the agency. Periodically revisited.

Ms. Arnolds continued that the most critical facilities would have the highest ranking. The key to understanding was that the alignment was determined by the agency with which the facility was associated.

Ms. Arnolds advanced to slide 10 which showed MAI examples. The purpose of the slide was to point out that there was an index scale with defined categories, which were as follows in order of importance: critical, important, supportive, and other or non-mission critical. The index allowed the department to have a transparent and consistent way of evaluating facilities.

2:55:10 PM

Ms. Arnolds advanced to slide 11 to discuss some examples of systems and needs. A system would be ranked at a 5 or higher if it was a critical need, a 4 if it was important, but not yet critical, and a 3 if it was necessary. She used the example of an outdated fire alarm system where maintenance workers were no longer able to get parts and pieces for the system and it was no longer up to code. The scenario would fall between the important and critical categories depending on where the system was located. If it was a system that was in failing mode it would have a very high factor of 5 or 6. She explained that each project would receive a score that would be averaged out to result in consistent scoring.

Ms. Arnolds addressed examples from the previous prioritization cycle on slide 12. She offered as an example a project originating from the Department of Transportation and Public Facilities (DOT) involving the Palmer Highway Maintenance Station. The station was high-use and facilitated the maintenance of multiple roads by DOT, and therefore it had a high PIV. The issues at the station were the trench drain failing and falling concrete that was becoming corroded. She explained that the 4.91 need score for the project reflected an average of how each agency within the facilities council scored the need. The PIV was then determined by multiplying the need score by the system factor and MAI. The list was combined once the council was satisfied with the overall prioritization and was then presented and shared with OMB.

2:59:02 PM

Ms. Arnolds addressed the statewide management approach on slide 13. She read from the slide as follows:

- Division of Facilities Services' (DFS) mission is to deliver, improve, and maintain safe and reliable facilities across Alaska. This work encompasses all aspects of construction through maintenance during a facility's life cycle. This centralization provides consistency, expertise, care, and application of state rules to manage integral real property assets.
- DFS's administrative costs and Department of Transportation and Public Facilities overhead are billed to agencies based on a federally-approved indirect cost allocation plan rate of 9.28% for FY2022.

Representative Josephson asked if the state viewed the university as having to advocate and take care of itself as far as deferred maintenance was concerned, or if the university was viewed as part of the whole.

Mr. Steininger answered that the university had been handled in different ways over the years. He elaborated that in some years, the university had received direct appropriations for its facility maintenance and in other years it had not. In the years it had not received direct appropriations, the department had tried to accommodate some level of funding for the university through the statewide monies being discussed by the facilities council.

The state saw the university as part of the overall discussion, but it had been excluded from some of the backlog discussions in order to focus on other facilities. He indicated that there was a very large backlog at the university and the issue was part of the broader discussion.

Vice-Chair Ortiz referred to slides 5 and 6 related to the backlog in deferred maintenance costs. He asked if the $603.3 million backlog, excluding the university, was continuing to increase over time.

Mr. Steininger answered that the number had grown over the years. He would follow up with the history of the backlog, which he believed was included in a large OMB spreadsheet. The cost had grown especially in years where the funding on the capital side had been minimal based on revenue available to fund deferred maintenance.

Vice-Chair Ortiz referred to slides 4 and 5 and recalled that Mr. Steininger had reported that resources were going toward routine maintenance, and a more specific amount of resources were dedicated to significant repair. He asked if the recommendations included routine and regular maintenance.

Mr. Steininger referred to slide 3 and explained that there was no one definitive rule on the level of preventive maintenance necessary to avoid deferred maintenance; however, the National Research Council recommended spending 2 to 4 percent of replacement value of cost in order to avoid a growing backlog. The grand total of $135 million [on slide 5] reflected both the routine preventative maintenance and deferred maintenance funding.

3:07:28 PM

Representative Josephson referred to the suggested maintenance to avoid deferred maintenance on slide 3. He stated that the $5 million for the university did not come near meeting the objective.

Mr. Steininger answered that the $5 million was in addition to the funds the university had in its annual operating budget allocated toward maintenance. He did not have specific details about the university's operating budget, but he could follow up with the information.

Representative Josephson referred to the Department of Commerce, Community and Economic Development (DCCED) and the Department of Administration's (DOA) backlog amounts [slide 6] and asked if the maintenance charges ran through DOA.

Mr. Steininger answered yes, until recently. One of the shifts that had been made due to the consolidation of facilities maintenance into DOT was moving the public building fund from DOA into DOT. He clarified that the DOA deferred maintenance backlog had been zeroed out because the responsibility had been transferred to DOT.

Vice-Chair Ortiz referred to slide 3 and recalled that Mr. Steininger had reported the state was closer to the lower end of the 2 to 4 percent [of replacement cost value] range than the higher end. He asked if the state had been addressing deferred maintenance at a more aggressive level when the state had the resources to do so.

Mr. Steininger answered in the affirmative. There had been a period of time where deferred maintenance spending had been in excess of $100 million per year, which helped reduce the backlog. However, due to the state's fiscal situation, the process had slowed.

3:10:50 PM

Vice-Chair Ortiz asked if it would be Mr. Steininger's recommendation to be more aggressive with deferred maintenance spending due to increased revenue in the state, even though much of the revenue was due to one-time funding.

Mr. Steininger responded that the administration had looked at the facilities the state could divest from in order to bring down the deferred maintenance backlog. When the administration originally crafted the FY 23 budget, the state was still operating under constrained revenue. The administration thought the replacement cost value in the budget was still adequately managing the problem.

Representative Thompson referenced Vice-Chair Ortiz's comment about the state addressing deferred maintenance more aggressively when it had more resources. He had been pleased to see changes in the way in which projects were

formulated and ranked. He thought it seemed like it had been a "free for all" in the past when it came to funding projects, and projects that did not seem necessary were funded in the capital budget. He appreciated the change in the formula as it allowed for more mindful funding.

Mr. Steininger encouraged committee members to review the appendices provided by the department (copy on file). He referenced Representative Thompson's remark and explained that the transition to the facilities council's centralized management of maintenance had enabled the state to focus on the most necessary projects.

Co-Chair Merrick reviewed the schedule for the following meeting.

#
ADJOURNMENT

3:14:27 PM

The meeting was adjourned at 3:14 p.m.