

HOUSE FINANCE COMMITTEE  
March 10, 2022  
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 (via teleconference)  
Representative Kelly Merrick, Co-Chair  
Representative Ben Carpenter  
Representative Bryce Edgmon  
Representative DeLena Johnson  
Representative Andy Josephson  
Representative Bart LeBon  
Representative Sara Rasmussen  
Representative Adam Wool

MEMBERS ABSENT

Representative Dan Ortiz, Vice-Chair  
Representative Steve Thompson

ALSO PRESENT

Chad Hutchison, Director, State Relations, University of Alaska; Marie Heidemann, Planning chief, Juneau Field Office, Department of Transportation and Public Facilities.

PRESENT VIA TELECONFERENCE

Alexei Painter, Director, Legislative Finance Division;  
Neil Steininger, Director, Office of Management and Budget,  
Office of the Governor.

SUMMARY

HB 283      APPROP: CAP; REAPPROP; SUPP

HB 283 was HEARD and HELD in committee for further consideration.

PRESENTATION: UNIVERSITY OF ALASKA DEFERRED MAINTENANCE

PRESENTATION: MUNICIPAL HARBOR MATCHING GRANTS

Co-Chair Merrick reviewed the meeting agenda.

#hb283

HOUSE BILL NO. 283

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

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^PRESENTATION: UNIVERSITY OF ALASKA DEFERRED MAINTENANCE

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CHAD HUTCHISON, DIRECTOR, STATE RELATIONS, UNIVERSITY OF ALASKA, provided a PowerPoint presentation titled "University of Alaska for Alaska," dated March 10, 2022 (copy on file). He listed colleagues available online. He noted that many of the requests listed in the presentation were similar to requests made the previous year. He began with an FY 23 capital budget summary on slide 2. The slide included the Board of Regents' request of \$50 million, which was standard for the university. Included in the governor's GO [general obligation] bond package proposal (SB 166) was \$18.7 million for Moore Hall and Bartlett Hall located at the center of the University of Alaska Fairbanks (UAF) campus. He detailed that the insides of the buildings were corroded. He had seen a quote specifying that the buildings were on the verge of an imminent sewer and water systemic failure. Therefore, \$18.7 million had been included in the governor's GO bond package. He relayed that the \$18.7 million had increased from the previous year due to supply issues. He would provide further detail later in the presentation.

Mr. Hutchison moved to the second item on slide 2. He noted that the student information technology (IT) systems modernization and security upgrades were of particular interest to University of Alaska President Pat Pitney. He detailed that the system had last been upgraded in the late

1990s. He spoke to the need for mobility and an experience that students had come to expect when it came to services including enrollment, advising, and other. He elaborated that the update would be systemwide. Currently, the funding was coming from the federal Coronavirus capital projects fund. There was an open question about whether the university could qualify for the \$20 million as proposed by the governor. He explained that the use had to be tied to the Coronavirus. The university was making its best case and had submitted an application to the Office of Management and Budget (OMB) and OMB had submitted the application to the U.S. Treasury. He noted that the Treasury took a bit of time to provide feedback. He added that the increment and funding situation was something to keep in mind, whether it came from capital or federal funds. He relayed the university had not yet received a definitive answer from the Treasury. He highlighted that the item was President Pitney's top priority as it related to the entire university system. The upgrade impacted all of the university's students; it would help with enrollment and would reduce the university's reliance on state general fund dollars in the future.

Mr. Hutchison moved to the economic development increment on slide 2. The increment pertained to critical minerals, rare earth, drones, enhanced oil recovery, mariculture, and the university's health program. He remarked that the university was very pleased with the way the House Finance Committee had talked about the projects. The goal was to show good value for the state. The governor had asked the university what it could do help Alaska. The increment including economic development packages was the university's response.

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Mr. Hutchison turned to the university's growing \$1.4 billion deferred maintenance backlog on slide 3. He remarked that the need was great. He used Moore Hall and Bartlett Hall as an example of things the university was doing to help the entire state beyond the academic side. He detailed that in the summertime, the university housed woodland firefighters who helped out with firefighting activities in the Interior when hundreds of thousands of acres were burning. The university had partnerships that helped the entire state, and some went beyond the academic mission.

Mr. Hutchison moved to the governor's proposed FY 23 capital budget on slide 4. The slide included the \$18.7 million GO bond funds increment for the Bartlett Hall and Moore Hall modernization and renewal and \$20 million for the student IT systems work. The slide also included \$94.4 million in funding authority for the Seward Marine Center research vessel (Sikuliaq) infrastructure. The project included the extension of the dock, a warehouse, and high-level scientific equipment to help with Sikuliaq capacity. He highlighted the increment was only federal funding authority. He clarified there were no dollars attached to the increment, it was merely the university's ability to receive the funds at some point in time. The university was very encouraged by the conversations about the Sikuliaq, but the money was still to come.

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Mr. Hutchison turned to slide 5 referenced a one-page document ["University of Alaska FY 23 Priority Deferred Maintenance (DM) and Renewal and Repurposing (R&R)" (copy on file)] prioritizing all of the university's deferred maintenance. He noted that slide 5 included the same projects on the priority list. The top priority on the list was the Moore Hall and Bartlett Hall systems renewal. He noted there were experts online who could answer detailed questions about the work.

Co-Chair Merrick noted the original cost was under \$19 million and it had increased to almost \$21 million. She highlighted that the work would cost more as time went on.

Mr. Hutchison agreed and noted the cost was likely to continue increasing if the work was not addressed.

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Mr. Hutchison turned to slide 6 showing the remainder of the deferred maintenance projects (projects 6 through 14). He reiterated there were experts online for any detailed questions. He concluded his presentation.

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RECONVENED

^PRESENTATION: MUNICIPAL HARBOR MATCHING GRANTS

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MARIE HEIDEMANN, PLANNING CHIEF, JUNEAU FIELD OFFICE, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, provided a PowerPoint presentation titled "Alaska Department of Transportation and Public Facilities Harbor Grant Programs: Program Development and Statewide Planning" (copy on file). She reviewed slide 2:

Background

- Legislation passed in 2006 (AS 29.60.800)
- 50% matching grant program
- Funded on an annual basis at the discretion of the Alaska Legislature
- Projects locally inspired and managed
- Competitive Process -Project Evaluation Board evaluates and ranks projects

Purpose

- Provides financial assistance for construction ready harbor improvement projects
- Furthers the sustainability of Alaska's public harbor system
- Recapitalizes local government's harbor infrastructure

Ms. Heidemann elaborated on the program's purpose. The program was available for municipal or regional housing authority owned harbor facilities to fund construction ready harbor projects. She clarified the program was for small boat harbors, not commercial docks or barge facilities.

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Ms. Heidemann turned to slide 3 and continued to provide information about the program:

Funds Availability

- Maximum of \$5 million per municipality per year

- Minimum state match of \$50,000
- Funding is subject to budget process with the Alaska Legislature

#### Defined Categories -Tier I and Tier II

- Tier I -First priority, consists of major maintenance and repair of a harbor facility previously owned by the state and now is locally owned
- Tier II -Other facilities and those which have received a Tier I grant

#### Competitive Process

- Documented safety issue(s)
- Ability to fund match AND future maintenance & operations
- Serves the public interest
- Maintenance and operational need
- Public support (and local government resolution of support)

Ms. Heidemann elaborated on slide 3. She explained that the minimum project size was \$100,000 with a 50/50 match. She explained that when the program began it had been a way to get local participation and divest some state infrastructure.

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Ms. Heidemann moved to slide 4 showing a list of eligible and ineligible items. The eligible items made up the basic operation of a harbor including boat ramps, seaplane floats, and anything integral to the harbor. The program did not fund breakwaters, dredging, or large commercial docks. She noted the statute specifically restricted any preventative maintenance from eligibility.

Ms. Heidemann discussed the 50 percent local matching sources on slide 5. The matching funds for the program were non-state funds. She noted there were a few state programs allowed as match, but primarily federal, private, and local funding was used for the 50 percent match. She turned to slide 6 and relayed that the Project Evaluation Board (PEB) met for a half-day public meeting. She detailed that the

projects were ranked ahead of the legislative session (there was a current list available). Board members included the harbor program manager, four representatives from each of the regions and statewide Department of Transportation and Public Facilities, and the maintenance and operations specialist with responsibility for state harbors.

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Ms. Heidemann advanced to the Harbor Grant Program timeline on slide 7. The call for projects for the current cycle for FY 23 was the previous spring. The call for projects for the next cycle would occur in April 2022. She relayed that the PEB met in the fall and capital budget development took place during winter and spring. Following the governor's approval of the capital budget, the program moved forward with project awards (the program moved down the list and funded as many projects as it was able). She noted that others were welcome to come back for the next cycle. She informed the committee that the timeline was set so they knew the award within the call for projects, enabling a municipality that was unsuccessful to apply again the following year.

Representative Josephson asked about program funding for the current fiscal year. He wondered if the program funding had been funded, underfunded, or vetoed.

Ms. Heidemann answered the program had been funded in the amount of about \$7 million, which had funded two projects. She believed the projects had both been Tier I in Seward and Cordova. She would follow up with the complete list of the projects awarded.

Representative Josephson asked if his memory in recent years of the legislature or governor not funding the program was incorrect. He asked for verification the program was funded in the current year.

Ms. Heidemann answered that the program had not been funded in FY 21 but had been funded in FY 22.

Representative Josephson asked why.

Ms. Heidemann replied that she did not know.

Co-Chair Merrick noted it would likely be a question for the Office of Management and Budget (OMB). She would ask OMB to follow up on the question at a later time.

Representative Wool had been approached by someone who had told him the program had been vetoed for several years. The individual had been looking to get the funding into the budget. He thought perhaps he was mistaking the program for something else. The program brought to him by the individual had included multiple ports and a school in Fairbanks located on the Eielson Air Force Base. He asked if it rang a bell.

Co-Chair Merrick replied that she was trying to locate someone from OMB to address the questions.

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Ms. Heidemann discussed current ranked projects for FY 23 on slide 8. The list included two Tier I applications from the City of Valdez and City of Yakutat. She detailed that by statute the two projects rose to the top of the list as the highest priority with the highest score. There were five Tier II projects in Sand Point, Juneau, Homer, Sitka, and Anchorage. The slide listed the ranking scores and the total grant fund request for the seven applications was just over \$20 million. She turned to slide 9 and addressed the recent program funding levels in a bar chart. The blue bar reflected the municipal request, and the red bar reflected the capital budget amount. She highlighted the program had been unfunded in FY 21. The program request for FY 23 was about \$20 million. She noted the department did not yet know what the capital budget amount would be for FY 23.

Representative Josephson thought it appeared the program had not been funded in the current fiscal year.

Ms. Heidemann clarified the chart showed the 2022 legislative session for FY 23. She concluded the presentation.

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Representative Edgmon referenced slide 4 related to program eligibility. He asked if the economic contribution of a harbor was factored into the scoring process.

Ms. Heidemann responded there was a standard for whether an applicant had sufficient revenue and fee structure to operate and maintain [the infrastructure]. There was not specific standard related to economic development or benefit. One of the scoring criteria was whether a project served the best public interest. She added that the importance of the applicant's harbor facility was standard 8.

Representative Edgmon spoke in defense of the Sand Point community in his district where a fishing fleet occupied the harbor. He believed the location was almost exclusively commercial fishing boats.

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Representative LeBon observed that the City of Valdez small boat harbor reconstruction was ranked number one under Tier I on slide 8. He asked if the project was ranked number one due to the nature of the project or because the project had come up with twice the amount of matching funds required.

Ms. Heidemann replied the project was ranked number one due to its criteria score. She answered, "Yes, because they're Tier I," but the project was also competitive with Yakutat. She did not believe the increased match provided the project with extra points. The additional match was because the [Valdez] project hit the ceiling of the \$5 million maximum; therefore, Valdez had to fund the rest of the project.

Representative LeBon thought it made sense, but he thought it also made sense to reward a community that put more into a project.

Co-Chair Merrick noted that Representative Johnson and Representative Carpenter had joined the meeting.

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Representative Wool referenced a list of harbor projects that was similar to the presentation but different. He

noted the list was under Alaska Statute (AS) 29.60.700 instead of AS 29.60.800. The list he referenced included the Mat-Su Borough deep water port, Aleutians East Borough small boat harbor, Valdez, and Fairbanks Eielson Air Force Base schools. He thought it was a bond package that had been vetoed the past couple of years.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION (via teleconference), replied that he was familiar with the program.

Representative Wool considered the Municipal Harbor Grants Program [in the presentation], which he reasoned was a fine list of boat harbors; however, he noted the other projects were being vetoed and the state's obligation was not being paid. He expressed hesitancy at entering another arrangement with additional projects.

Mr. Painter stated the difference in the structure of the programs was the past bond program that had an outstanding state obligation of about \$2.4 million in FY 23. He explained the projects were financed and there were annual bond payments. He elaborated that funding the initial capitalization for the projects under the municipal harbor grants program would discharge the state's obligation. He clarified that it would not create an ongoing obligation.

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Representative Wool restated his question for OMB. He referenced harbor projects under AS 29.60.700 with a bond match that had been vetoed in the past couple of years. He wondered why.

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), responded that the governor had vetoed a number of projects the previous year that were included in the general obligation (GO) bond package proposed during the last session. He relayed that some of the projects were included in the capital budget passed by the legislature utilizing unrestricted general funds (UGF) rather than receipts from GO bond issuances. He explained that many of the projects moved from the bond package to the regular capital budget were vetoed in acknowledgement of the general fund resources available at the time and the administration's desire to use bonding in the capital budget to support some of the needs.

Representative Wool stated that the obligation had been realized before the previous year and before the GO bond had been put forth. He asked for verification that the obligation had been paid in previous years under the operating budget or with UGF.

Mr. Steininger responded that he may be confusing the projects Representative Wool was talking about with projects that were included in the GO bond package the previous year. He asked if Representative Wool's question was in reference to some of the municipal debt included in the debt services section of operating budgets in prior years that had not been included in operating budgets under the current administration.

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Representative Wool stated the debt had been included [in the budget] but vetoed by the administration. He believed they were speaking about the same thing. He stated that some of the items went back to 2007 and 2012.

Mr. Steininger replied that starting in the governor's initial FY 20 budget, the administration stopped including some of the debt service payments for non-state debt (that previously had been included in the operating budget). He noted the specific debt was often referred to as "moral obligation debt." He explained that some of the items had been removed in FY 20 and had been added back in subsequent years on occasion and vetoed because they were not direct state obligations for debt, but debt paid "as a matter of convention" by the state in prior years.

Representative Josephson continued with the same subject. He asked if the administration had chosen to veto the items highlighted by Representative Wool for the same reason it had decided to veto school bond debt in terms of moral responsibility. Alternatively, he wondered whether the administration reached the same conclusion for a veto but for a different reason.

Mr. Steininger responded that by nature the reasons were very similar. He explained that obligations that were not necessarily tied to the state's credit rating were subject to appropriation and had been viewed similarly in consideration in the years they had been vetoed.

Representative Josephson referenced the list of current Municipal Harbor Grants Program ranked projects on slide 8 of the presentation at a total of about \$20 million. He asked what portion of the \$20 million was included in the governor's budget.

Mr. Steininger answered that he did not believe any of the harbors from the Municipal Harbor Grants Program list were accounted for in the governor's budget. He thought one of the projects may be on the GO bond package list. He would have to follow up.

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Representative Josephson stated that the administration's department (DOT) was presenting a list of highly ranked projects that were not in the governor's capital budget. He asked why the list had been presented. Additionally, he noted the administration was vetoing municipally driven programs where historically legislatures would provide around 50 percent funding when they could afford to do so. He asked if the administration had any interest in the improvement of harbors and docks at the local level.

Mr. Steininger answered that the Municipal Harbor Grants Program had been funded in prior year capital budgets when revenue was available to fund projects on the list. He stated that often the level of funding was based on the highest ranked projects on the list. He explained it was separate from the state in previous years choosing to take on a portion of municipally issued debt that appeared as moral obligation debt in the operating budget. He explained that the Municipal Harbor Grant Program had ranking criteria that went through DOT. He stated that the administration was interested in funding ports and harbor infrastructure projects, as reflected in its GO bond package. He remarked it was an area of need throughout the state; however, like most areas of need, the need exceeded the available resources when the budget had been issued.

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Representative Josephson stated that since December the state had come into a substantial amount of money. He asked if it changed the administration's position. He considered the \$20 million request from DOT and pointed out the state

had the funds. He asked if the administration believed the money should be appropriated.

Mr. Steininger answered that as the administration was responding to quickly changing events in state revenue, it was analyzing the highest and best use for the revenue. He stated that until there was a solid spring forecast, he could not speak to the administration's position on the best use for the revenue. The administration had already proposed mechanisms to fund some port and harbor projects around the state through the GO bond package. He elaborated that the administration had put out priorities using the funding available on December 15. He remarked that the change in revenue may alter some of the perspective on how to best fund some of the projects, but currently the administration believed the GO bond issuance was advantageous for the state. How the surplus was used would be thought through as the spring forecast was received on March 15. He could not confirm that the program was the best use of \$20 million or just another good use in a long list.

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Representative LeBon returned to Representative Wool's comments about a Fairbanks North Star School District school located on Eielson Air Force Base. He remarked there was a mix of projects including several ports. He asked about the source and year of the project list referenced by Representative Wool.

Representative Wool answered he had been referencing AS 29.60.700. He informed the committee the Fairbanks bond was issued in 2006. He believed Mr. Steininger had called it a moral obligation like school bond debt. He believed the idea was the state would pay half and the municipality would pay half. He stated Fairbanks had been included on the list somehow. He thought it had been vetoed the last several years. He remarked on the new revenue forecast and noted there was a \$2 million obligation for FY 23.

HB 283 was HEARD and HELD in committee for further consideration.

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

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ADJOURNMENT

2:15:00 PM

The meeting was adjourned at 2:14 p.m.