

HOUSE FINANCE COMMITTEE
March 25, 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
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative Andy Josephson
Representative Bart LeBon
Representative Adam Wool

MEMBERS ABSENT

Representative Steve Thompson
Representative Sara Rasmussen
Representative DeLena Johnson

ALSO PRESENT

Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development; Tim Mearig, Facilities Manager, Department of Education and Early Development; Sarah Sledge, Executive Director, Coalition for Education Equity; Nils Andreasson, Director, Alaska Municipal League; Representative Mike Cronk.

PRESENT VIA TELECONFERENCE

Tom Roth, Chief Operating Officer, Anchorage School District; Jim Anderson, Chief Financial Officer, Anchorage School District; Ed Pekar, Lower Kuskokwim School District; Kevin Lyon, Planning Director, Kenai Peninsula Borough School District.

SUMMARY

HB 283 APPROP: CAP; REAPPROP; SUPP

PRESENTATION: STATE-AID FOR SCHOOL CAPITAL PROJECTS:
GRANT AND DEBT BY THE DEPARTMENT OF EDUCATION AND
EARLY DEVELOPMENT

Co-Chair Merrick reviewed the agenda for the meeting.

#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: STATE-AID FOR SCHOOL CAPITAL PROJECTS: GRANT AND DEBT BY THE DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

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HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced the PowerPoint presentation: "State-Aid for School Capital Projects: Grant and Debt - Department of Education and Early Development" (copy on file). She began with slide 2: "Our Mission, Vision, and Purpose." She explained that the vision of the Department of Education and Early Development (DEED) was taken directly from Alaska Statute (AS) 14.03.015. She indicated that DEED existed to provide information, resources, and leadership to support an excellent education for every student every day.

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Ms. Teshner continued to slide 3 and explained that there had been significant school capital funding in the history of Alaska. There were three sources of funding including federal, state, and funds from the Local Education Agency (LEA). The funding from the state came from various grants and bonds, which started in approximately 1970. The school debt reimbursement program also contributed significantly to funding sourced from the state and began in the year

1971. The program has been administered by DEED since 1983. There were also debts that were reimbursed annually, which was funded through the operating budget. Local education agencies and municipalities had also been a strong component and had used capital reserves, municipal funding, and other revenue that could be utilized from the general fund in order to help maintain and upkeep local school facilities.

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Representative Edgmon thanked his mother, Edie, and his brother, Gary, who were listening in. He asked if Ms. Teshner would contextualize the Kasayulie lawsuit and the Moore case. He hoped she would focus in on the Kasayulie case. He thought it could provide a guidepost on the type of school funding that had taken place.

Ms. Teshner would follow up with the committee.

Representative Edgmon wanted her to provide context in the current meeting.

Ms. Teshner relayed that the most recent Kasayulie case involved the Kivalina replacement school that was funded in 2016.

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TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, added that there was a helpful briefing in HB 237 that gave more information. He indicated that the report would be highlighted later in the meeting. It had a large impact on funding starting on 2010.

Ms. Teshner explained that Handout 1 (copy on file) was the document that would provide the additional information.

Mr. Mearig continued to slide 4: "Recent Funding (SB 237 Report)." The report was required by statute and highlighted the funding since 2010 when the Regional Educational Attendance Area (REAA) and small municipal grant fund was established. In the current year, the funding was \$1.445 million. He explained that if a grant was awarded to a municipality that had a 35 percent matching share, only the state share would be shown in the funding amount. He indicated that Handout 1 was available

for review. He pointed to Appendix A and B, which showed a compendium of all the funding that had been provided to date.

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Mr. Mearig advanced to slide 5: "Current Finding Options." The funding currently available in statute was the School Construction Grant Fund, Major Maintenance Grant Fund, and the REAA and Small Municipal School District School Fund. The REAA fund was an indexed fund and was tied to the amount of debt reimbursement funding that was allocated through the operating budget annually. The amount was determined by a formula found in AS 14.11.025. Prior to 2010, there was no forecasting of funding for maintenance, but through this mechanism, there was now a forecast for available funding for REAAs and indexed debt reimbursement funding.

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Representative Edgmon referred to the federal Infrastructure Investment and Jobs Act (IIJA) and asked whether there was funding for schools.

Mr. Mearig responded that there was \$500 million for energy projects for schools.

Representative Edgmon commented that the issue was a "sleeper issue" that should be watched. He noted the price increase amount was changing rapidly.

Mr. Mearig continued to slide 6: "Current Project Categories (AS 14.11.013)." He explained that necessary projects identified by school districts were determined through the 7 provisions outlined on the slide. School construction projects would be defined under items A, B, and C and would be put on the school construction grant fund list for possible funding. He added that projects that addressed items C, D, and E were major maintenance projects. The split of project types had served the state well. The categories had grown out of the effort to identify the major maintenance grant fund and put it into statute.

Mr. Mearig advanced to the matrix on slide 7: "Fund - Category - Entity Relationships." The slide indicated the

type of districts that might be able to take advantage of the funding. He reminded members that there were 19 REAA school districts in the small municipal district category. He highlighted that there were some restrictions, such as REAA schools not being eligible for debt reimbursement.

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Mr. Mearig turned to slide 8: "Capital Improvement Project (CIP) Eligibility." He explained that when the department looked at eligibility criteria, there were several components that had to be considered in order to be eligible to be on the major maintenance or grant fund list. These components were listed on the slide as follows:

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

Co-Chair Merrick asked for a list of school districts that had not qualified.

Mr. Mearig responded by providing the following list: the Aleutian Region, Hydaburg, Klawock, Lake and Peninsula Borough, Skagway, and Yukon Flats.

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Mr. Mearig continued to slide 9: "Grant Participation and Eligibility." He explained that there was an annual period for applying for school capital funds across the state. Eligible districts would provide a Capital Improvement Project (CIP) grant application no later than September 1, which was then received by the review committee. An application would include a category of work and would fall into the respective list on slide 6. The department evaluated and ranked each project through a robust review process which included the use of measured and evaluative metrics in order to prioritize the projects. The ranking was determined through statute and additional regulation determined how the projects would be scored. The process had functioned smoothly since its rollout in 1996 and only minor adjustments in the evaluative process had been made

since its inception. The department worked to understand the needs of school districts to ensure that it was tuned into an appropriate measuring mechanism to determine the need. He noted that a CIP priority list was generated and released on November 5 of each year. There was a reconsideration period if a district thought that the department made an error. The list the department generated took special care in identifying costs to ensure that the department was accurately representing the costs to the legislature and the public.

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Mr. Mearig continued to the graph on slide 10: "Grant Participation and Eligibility FY 13 -FY 23." He noted that the trend downwards in fiscal year (FY) 20 was alarming because many districts were not participating in the program. He pointed out that in FY 19 there were several major maintenance projects. The department was glad to see the participation number rebound since FY 20. He explained that one element of the department's process was outreach and training to encourage districts to participate in the program. If a district did not participate, the department would not be informed of a district's needs. Information had to be turned in for the department to know how to proceed.

Co-Chair Merrick noted Representative Mike Cronk in the audience.

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Mr. Mearig turned to slide 11: "Grant Awards FY 13 -FY 22" which showed a chart delineating the dollar amount of funds awarded under each fund category by fiscal year. He indicated that the funding that had been provided lately had been relatively moderate in the major maintenance grant fund category. He noted there had been four years without funding for school construction grant fund projects, however school construction projects had still been funded through the REAA and small municipal project fund. The majority of school projects had been eligible for REAA funding.

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Co-Chair Merrick asked if any of the areas on the chart indicating zero dollars had to do with vetoes.

Mr. Mearig responded that there had been some efforts to award funds under the school construction grant fund category that had been vetoed. In the REAA and small municipal district fund, the normal funding would be in the high \$30,000 to the low \$40,000 range according to the calculations. He explained that the numbers represented the actual projects that were funded, not the amount that was placed into the fund.

Ms. Teshner added that in FY 21, the school bond debt reimbursement was vetoed, which meant no funding went to the REAA fund.

Co-Chair Merrick asked Ms. Teshner to speak to the additional costs that could result from pushing back projects because of increasing construction costs.

Mr. Mearig agreed that construction costs had been increasing. He thought that cost increases combined with the deteriorating conditions of some facilities made it clear that there was a need for funding.

Representative Edgmon wanted to discuss the Bristol Bay School District. He understood that the school building had been built when Governor Jay Hammond was on the borough assembly. There was an expensive remodeling project that was made more expensive when asbestos was discovered in the roof. He suggested there was nothing in the budget to address potential cost overruns.

Mr. Mearig replied that he was aware of the Bristol Bay project which was funded in FY 19. He indicated that the project was basically completed. However, he agreed there had been unanticipated issues including delays because of the discovery of asbestos. There were also additional costs and delays related to COVID-19 mitigation. Additional funds had been needed in order to complete the project. There had been occasions in which funds had to be allocated to other projects that were behind schedule.

Representative Edgmon noted that the circumstances were anomalies. The borough had additional costs of about \$3 million which came out of the Bristol Bay Borough reserves in order to keep the project on track.

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Mr. Mearig explained slide 12: "Total Eligible Grant Projects and Actual Grant Funding by Fiscal Year." The slide reflected the number of projects that had been placed on the list. He noted that the school construction list had diminished significantly, which he thought was the direct result of heavy funding in that area. Much of the capacity issues related to overcrowding that had been problematic in the past had been resolved, and old facilities had been replaced. The remaining items would be expensive, but the number of projects had been reduced.

Mr. Mearig turned to slide 13: "Appropriations into the REAA and Small Municipal School District Fund." The slide showed how the fund had fared since the first appropriations were made in FY 13.

Mr. Mearig continued to slide 14: "Allocations from the REAA and Small Municipal School District Fund." The list reflected projects that had received funding through the REAA and small municipal school district funds. In FY 21, there was a bill passed that had made funding available for major maintenance projects. He noted that some high-ranking major maintenance projects had used these funds.

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Mr. Mearig advanced to slide 15: "Debt Reimbursement and Eligibility." The program was established through AS 14.11.100 and gave the state the opportunity to review applications made by school districts and municipalities for projects that could be eligible for state aid. The projects were typically not ranked, but on occasion there had been some need to evaluate and prioritize applications when certain allocations were identified in statute. The department used the same metrics and eligibility requirements that were used for all projects.

Co-Chair Merrick asked Co-Chair Foster to comment on the school bond debt reimbursement allocation in the current operating budget that was moved out of committee.

Co-Chair Foster explained that the school bond debt reimbursement was funded at the 100 percent level in the FY 23 operating budget. He noted that only half was paid last

year, so it was determined that the state would pay the other half this year in a supplemental appropriation. He thought that the amount came to around \$60 million. He wasn't sure of the exact monetary number associated with the difference.

Co-Chair Merrick thought that the information was important for people to know.

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Mr. Mearig advanced to slide 16: "Debt Reimbursement Trends: Percentage of Reimbursement Trends." The slide identified the percentage of school debt covered by the state that had changed over time. Currently, all projects that had received debt reimbursement were either being reimbursed at 70 percent or 60 percent. Proposed statutory language was suggesting this be changed to 50 and 40 percent. The difference between the two eligibility percentages was tied to whether or not the project was eligible under the department's regulations for school space.

Mr. Mearig moved to the chart on slide 17: "Debt Reimbursement Trends: Project Values by Percent Reimbursement." He offered clarification that when he discussed debt reimbursement, he was talking about project values, not the overall cost over time. He highlighted that the majority of projects had been reimbursed at the 70 percent rate. There was also a substantial number of projects reimbursed at 60 percent.

Ms. Teshner addressed slide 18: "Debt Reimbursement Trends: State Share of Outstanding Debt." She answered Co-Chair Foster's question and reported that the difference between FY 22 debt reimbursement appropriations and the supplemental appropriation was about \$49 million. She discussed the state's share of outstanding debt on the slide. She explained that current projections showed that the state liability would be fully paid off in FY 40, assuming that the moratorium would end and that no new bonds would be sold. She noted that Handout 2 (copy on file) provided information on the numbers behind the chart.

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Ms. Teshner advanced to slide 19: "Debt Reimbursement Trends: Reimbursement Shortfalls." The slide showed reimbursement shortfalls. She noted that Handout 3 (copy on file) showed the same information on the slide but in an easier to read format.

Ms. Teshner continued to slide 20: "Debt Proceed and Refundings." She explained that after the initial bonds were sold, the department identified how much of the approved projects were funded by the new bond. There might be other elements within an approved bond that were not school related, so the department would break the elements out in order to only include what was eligible in statute. After eligibility was confirmed, the reimbursement rates were determined. If districts and municipalities were allowed to provide refundings, the refundings would have to show an overall savings to the state.

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Ms. Teshner indicated that slide 21: "Funding Comparison" was a summary of the presentation and showed the three funding options that had been discussed. All REAAs had a 2 percent participating share and small municipalities had a share of between 10 and 20 percent. The participating share for school construction and major municipality grants was between 2 and 35 percent. The local share under the debt reimbursement program was 40 percent if not eligible for space and 30 percent for all others. When the moratorium lifted in FY 26, the percentage would change to 50 percent and 40 percent, respectively.

Ms. Teshner turned to slide 22: "Additional Handouts and Resources." The slide showed some additional reference information and several online resources.

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Co-Chair Merrick thanked the presenters. She was glad the presenters highlighted that the costs would increase in the future and that the state had not been keeping up with school major maintenance. She suggested that although many

of the projects were not glamorous, the projects were necessary.

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Representative Carpenter asked if deferred maintenance was considered to be the same as major maintenance.

Ms. Teshner confirmed that deferred maintenance was a title that was used at the state level and major maintenance was used at the district level. She agreed that both titles had been used interchangeably for school districts.

Representative Carpenter asked about the difference between the preventative maintenance program and a grant application for major maintenance.

Mr. Mearig responded that the preventative maintenance program included five different areas of maintenance management and school facility management. All of the five areas should be funded by school districts through their operating budgets. The responsibility of school maintenance was that of the operating fund. All of the major maintenance projects listed were projects that were already in need.

Representative Carpenter clarified that all of the projects that were on the major maintenance list would not be found on the preventative maintenance list that the department would certify for each school district. He asked whether there would be any projects with major maintenance needs that would fall under the preventative maintenance program.

Mr. Mearig responded in the affirmative. He explained that that the state did not manage a district's preventative maintenance program, though it would ensure that a district had one in place and would help a district develop a program if necessary. In regulation, the department categorized major maintenance projects as projects at \$50,000 or more. Any projects below that dollar amount needed to be worked as a district project.

Representative Carpenter shared his understanding that the needs for major maintenance projects had been less substantial in the last few years. There was also a decision that was made at the local level for preventative maintenance. He asked about the linkage between the current

major maintenance projects and the decisions that had been made to forgo the preventative maintenance projects in the districts. He asked if it was known whether districts were putting off preventative maintenance, and therefore would incur a major maintenance cost down the road that would be the responsibility of the state.

Mr. Mearig explained that in 1999, the legislature instituted a taskforce for deferred maintenance to look into the matter. When the program was implemented to measure the preventative maintenance participation of each district, there was a position added to evaluate the districts. If districts could not provide proof of compliance, they would remain ineligible.

Representative Carpenter thought that part of the criteria for getting onto the major maintenance list would be an assessment at the state level to investigate each project.

Mr. Mearig replied in the affirmative. He indicated that if the state saw that there was a maintenance issue that was reflected as part of a project, it would be taken out of the request.

Co-Chair Foster noted that school bond debt and REAA were tied together by formula and sometimes the two numbers were lumped together. He wanted to clarify his earlier comment stating that the number came to \$60 million. School bond debt was \$49 million, but the total between school bond debt and REAA was \$67 million. He explained that last year, \$49 was tied to the Constitutional Budget Reserve (CBR) vote. The vote failed to pass and the other \$17 million for REAAs was also vetoed. He reiterated that both were funded at 50 percent. The legislature put in \$67 million in the supplemental capital budget for both school bond debt and REAA.

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Vice-Chair Ortiz noted the major maintenance list had grown over the years and the state had access to more financial resources in the current year than it had in recent years. He wondered whether there would be any bandwidth problems within the department to efficiently use resources if there was an attempt to eliminate the current list of projects that totaled about \$200 million. He asked if there was a

preference and whether it would be better if the funds were more dispersed.

Co-Chair Merrick thought the cost for the projects was \$260 million to \$280 million.

Ms. Teshner responded that the state's share was \$196 million. She also noted that the full funding was appropriated, the department would do its due diligence to distribute the agreements to school districts as quickly as possible. Some monies would be spent faster than others. In the following year there would be a new list, as there was continued need.

Co-Chair Merrick indicated that the committee would hear from stakeholders.

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TOM ROTH, CHIEF OPERATING OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), thought Mr. Jim Anderson, also from the Anchorage School District (ASD), was available online to comment. He relayed that ASD made sure it was eligible to participate in the grants over the last several years. The district had received state funding for two projects since 2015. The amount received by the state had not been substantial. The district was currently sitting on more than \$820 million in deferred major maintenance funds. He relayed the district had a dedicated maintenance and operations department to ensure that preventative maintenance was taking place. Additionally, the district did a significant amount of unscheduled maintenance that came up from time to time. As time continued without doing maintenance, the unscheduled repairs would increase. Deferring major maintenance led to greater costs with the passage of time.

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JIM ANDERSON, CHIEF FINANCIAL OFFICER, ANCHORAGE SCHOOL DISTRICT (via teleconference), reported that ASD had received about \$21 million over the last 10 years, which was about 3 percent of the total in the state. He did not think the district had received a significant amount, but when it did receive funds, the funds were for projects that needed the funding. There was certainly more need for funding to be available due to many projects being vetoed.

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Representative Carpenter asked whether there was a statutory requirement mandating that the state fund major maintenance projects for schools. He wondered if a decision at the local level could be made to push projects to deferred maintenance. He offered that operational spending and capital spending dedicated to improving buildings could compete for available dollars. He asked whether the state was required to pay for the major components of a project.

Mr. Roth responded that there was no statutory requirement. He shared that ASD had not sought funding since the bond debt program was suspended. The cost had been borne by the municipality since 2015.

Representative Carpenter commented that he was not necessarily looking for a response from ASD on the statutory requirements. He stated that he would look into it on his own.

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Mr. Mearig replied that there was some responsibility involved in an REAA for the state to enter into a capital renewal of necessary facilities. Outside of that situation, the responsibility would fall to boroughs and municipalities.

Representative Carpenter thought Mr. Mearig was drawing a distinction between major maintenance projects in REAA schools that were not in a local municipality and major maintenance projects that were in municipalities. He suggested that the latter was the responsibility of the legislature.

Mr. Mearig replied in the affirmative.

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Representative LeBon thought ASD was set up similarly to the Fairbanks North Star Borough (FNSB) school district. He wondered if the district owned and operated the school buildings.

Mr. Roth responded that all real property was owned by the municipality. The district exercised management of the properties and maintained the grounds.

Representative LeBon asked how extensive ASD's role was in the maintenance of properties. In particular, he wondered about the maintenance of roofs within the district.

Mr. Roth responded that the district was wholly responsible for maintaining roofs through both preventative and unscheduled maintenance repairs as well as replacing the roofs when needed. It was the responsibility of the district to request funding through bond debt reimbursement.

Representative LeBon referred to one of the elementary school improvement lists on file that mentioned roof maintenance. The schools in his district appeared on the list on three occasions all for roof replacement. He wondered how much of the chronic roof replacement needs could have been avoided.

Co-Chair Merrick noticed that roof replacements were frequent on the list. She asked about the roof repairs for Eagle River Elementary School (ERES) and whether the need resulted from earthquake damage.

Mr. Roth replied that the need did not result from earthquake damage. The schools had received public assistance to cover the earthquake damages. Prior to the earthquake in November of 2018, ERES was next in the queue for what would have been a roof replacement and a scheduled periodic improvement to the school building.

Co-Chair Merrick noted that ERES was one of the most damaged schools in the aftermath of the earthquake. She thanked the testifiers.

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ED PEKAR, LOWER KUSKOKWIM SCHOOL DISTRICT (via teleconference), relayed that the Lower Kuskokwim School District's (LKSD) most pressing needs were a new school in Napakiak and a new school in Mertarvik. There had been significant river erosion in Newtok that had impacted the village, and the village was in the midst of a relocation project from Newtok to Mertarvik. The timeline of the

relocation had been impacted due to COVID-19. There were several other maintenance projects in the district that needed funding. Another school on the CIP list, Anna Tobeluk Memorial School, had been moved down the list due to the priority of addressing the river erosion in Newtok. The district received funding to begin the project in Napakiak. He had revamped the district's list of preventative maintenance projects and there was a new management system. The district had secured a lease for the new school site in Napakiak and continued to work towards completing the project. The district continued to reach out to state and local entities in Newtok and Napakiak for help developing water wells, sewer systems, and electricity.

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KEVIN LYON, PLANNING DIRECTOR, KENAI PENINSULA BOROUGH SCHOOL DISTRICT (via teleconference), wanted to express his support for the school major maintenance projects efforts. He shared that the Kenai Peninsula Borough School District (KPBSD) spanned about 25,600 square miles and required bussing students to and from school a distance of about 6,670 miles per day. The average age of facilities in the district was 46 years old, with the oldest facility at 87 years old. He relayed that 30 percent of schools in the district had facilities that exceeded 50 years. The district had done a good job of maintaining facilities and extending the life of facilities. The district was unique in that it included urban, rural, and remote areas. There were 42 schools and 70 communities in the district and the replacement amount totaled around \$713 million. There were some computer systems in the district that were 36 years old and were based on Windows 2.0. The newer systems were more reliable, easier to maintain, and saved significant energy.

Mr. Lyon noted that the reduction in state participation in the reimbursement program over the last three years had shifted about \$5.5 million to property owners, which covered the state portion of the bond payments. The local funds could have been utilized by adjusting facility needs. He indicated that the reduction in state participation combined with the reimbursement moratorium of 2015 had detrimentally impacted the district. If these issues were addressed in a timely manner, the education infrastructure could be preserved.

Representative LeBon suggested that there were nearly 100 projects listed by priority on the CIP list. He indicated that Kenai appeared as number 61 on the list of projects, and the need was for a partial roof replacement. He was impressed that the district only had one project on the list.

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SARAH SLEDGE, EXECUTIVE DIRECTOR, COALITION FOR EDUCATION EQUITY, began her PowerPoint Presentation: "Coalition for Education Equity." She began on slide 2 and read a prepared statement:

Good afternoon. My name is Sarah Sledge. I am the executive director of the Coalition for Education Equity, a statewide organization representing Alaska school districts, organizations, and individuals concerned about the quality and breadth of educational opportunities available to Alaska's children. Thank you for the opportunity to speak with you today.

Formerly known as Citizens for the Educational Advancement of Alaska's Children, or CEAAC, our organization advocated for education reform at the legislative level while fighting the Kasayulie and Moore lawsuits, which were settled in 2011 and 2012 respectively. The Kasayulie vs State of Alaska lawsuit was filed in 1997 regarding the method of funding capital projects for education. At the time the lawsuit was filed, many of the physical facilities within plaintiff (REAA) school districts were in dire need of replacement and/or major maintenance, exhibiting widespread deterioration, physical dangers, structural deficiencies, inability to satisfy relevant code requirements, and a lack of sufficient instructional space.

We are concerned that we again find ourselves in the situation of seeing deterioration of school facilities creating unsafe or uncomfortable environments, environments that interfere with or impede the ability of students to learn, or, at the very least, increased costs for maintenance. We are also concerned that continued deferment of major maintenance will necessitate a larger number of school construction projects in the future, at great cost to our state.

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Ms. Sledge turned to slide 3 and continued to read from a prepared statement:

Slide 3 shows the number of projects and dollar amounts of the Major Maintenance priority lists over the past five years, including the current year list.

We can see that in this time frame the number of projects and the cost of these projects has steadily increased. Many of the projects on this list have remained on the list for many years, and in many cases the maintenance issues at those schools become worse over time as conditions deteriorate. Other major maintenance projects we know have either fallen off the list, for a variety of reasons, or are not on the list because school districts did not complete CIP applications. So, we know that the need across the state is larger than what is on this list.

This need does not correspond with the funding that has been provided for school major maintenance over the past several years.

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Ms. Sledge remained on slide 3 and continued to read from a prepared statement:

In 2017, the legislature passed \$3.5 million for school Major Maintenance in the FY 2018 Capital Budget

In 2018, we worked with the Legislature to pass HB 212, which allows the REAA Fund to be used for school major maintenance projects as well as school construction.

The REAA Fund has been used twice since passage of HB 212 to fund REAA major maintenance projects:

FY 2019 St. Mary's Campus Upgrades (\$3,449,928)
FY 2021 St. Paul K-12 School Roof Replacement & Structural Repairs (\$1,896,395)

That year the Legislature passed \$24,203,372 for school Major Maintenance in the FY 2019 Capital

Budget, which covered the top five maintenance projects on the priority list that year.

In 2019, \$2,484,000 was appropriated for specific school construction and major maintenance projects (NWABSD and ASD - Sand Lake Elementary safety lighting project). No funding was appropriated for the major maintenance grant program.

In 2020, no funding was appropriated for the major maintenance grant program.

In 2021, the legislature passed \$21,642,300 for school major maintenance, as well as funding for a couple of individual school projects. The \$21,642,300 was vetoed.

Ms. Sledge advanced to slide 4 and continued to read from a prepared statement:

CIP (Capital Improvement Project) Application Process
The CIP application process is thorough and is set up to ensure that school capital projects are needed, well planned and designed, and a good use of state funding. School districts submitting grant applications must have a six-year CIP plan on file with DEED, which outlines all current and future capital priorities. Applications themselves will require some form of facility or component condition survey, depending on the scope of the project. A facility condition survey would be needed for a major rehabilitation project. Additional assessments or documentation that will be needed for larger scale projects include planning, schematic design, and design development work. This work needs to be completed by an engineer or architect. Smaller projects can be assessed by a licensed contractor.

This process, again depending on the scope of the project, can cost between \$2-3000 up to \$75,000-\$100,000 to prepare for and submit the CIP application. Getting design teams to rural village schools for these assessments and to prepare cost estimates can be especially expensive. I spoke recently with a superintendent who had an engineering team visit two of the district's schools to prepare these surveys and plan and the cost was just under

\$62,000. For another district, they were unable to get any contractor to travel to their schools at all to do this work and give them a bid. They were unable to submit a CIP application. Many school districts use outside assistance to help them put their grant application packets together, which can range from \$2500-10,000, depending on the number of projects.

In addition to this initial cost, there is an ongoing cost to reapply when projects are not funded. The application must be updated and the cost to resubmit can run around \$8,000 every two years.

For many of these school districts, these projects once completed will result in significant cost savings due to improved energy efficiency and reduced need for ongoing maintenance and repair. We continually ask our school districts to spend efficiently - funding these projects will help them do so.

I just want to stop here and acknowledge the wonderful staff at the Department of Education and Early Development. They provide extensive ongoing support to school districts throughout this process and I always hear about how helpful they are.

Impact of Projects Not Getting Funded

So, given what I've just shared about the costs of preparing for and submitting CIP applications, you can see that if a project doesn't get funded, there are ongoing costs for resubmitting year after year. This can add up to a significant amount of money for school districts over the years.

But there are also the costs involved with making do in the meantime - working with district maintenance staff or hired contractors to make fixes or repairs that are temporary and insufficient. The costs involved in taking these actions don't solve the problem and are sunk costs for school districts.

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Ms. Sledge remained on slide 4 and continued to read from a prepared statement:

You can see the burgeoning need by looking at the major maintenance priority list. What is this like in reality for our school districts? I'd like to share with you just a few scenarios:

Our DDC Control system is off-line and has been for four years. The cost to the district is increased fuel usage, an inordinate amount of maintenance personnel time manually adjusting valves for rooms which are too hot/too cold, and poor ventilation since we discovered some of the air handlers went offline. This is also a health issue with poor air circulation in the buildings, especially in the time of COVID. We plan to use some of our second round of CARES Act funding to try to bring at least one school back online with a new system.

Our high school generator is too small and inefficient, and it is also located INSIDE our maintenance shop with inadequate exterior ventilation. Every time the power goes off our maintenance staff must evacuate the shop until the generator can be shut off as it pours fumes into the building.

Roof Repair requested 6 years ago. The need for this is that the roof is a hot roof and a light pitched roof, this allows the snow to build up and as it accumulates it melts at the roofing level then runs down to where the roof is the coldest and refreezes and build an ice dam that backs up further melt water. When this happens the water's depth allows it to find its way under the roofing and into the inside of the building causing water damage to the insulation, sheetrock and wood framing and also allows for the formation of mold.

The H-Vac and ducting system have not been functioning properly for over 12 years and needs to be fixed by a professional. Because the duct work has gaps and has fallen in places it allows dirty air and dust from the crawl space to be introduced into the school. This also appears to be where mice are gaining access to the school building. All of this makes for unhealthy air quality, as well as heating inefficiency.

[3:02:21 PM](#)

Ms. Sledge turned to the photos on slides 5, 6, and 7 and continued to read from a prepared statement:

This school built in 1979 and has never been renovated. The roof is so damaged from snow and ice during the winter that it continually leaks when the temperatures rise above freezing. Rain during the warmer seasons further aggravates the problem. The roof has 3-inch ribs, spaced 8 inches apart, and has over 12 "valleys" which trap precipitation. We have done everything in our capabilities to repair and stop the leaks. The design of the roof does not allow the water to flow down naturally. The snow must be shoveled off every winter by the maintenance crew, who have spent untold hours doing so. During the summer we spend many hours working on large portions of repairing those winter damages, summer after summer. The repairs only seem to last one season. Insulation has been added in the attic space; we thought we were losing heat through the roof causing the ice dams, but the added insulation made no change. The heavy amount of snow insulates it, then melts causing the leaks.

The school's foundation is deteriorating very quickly. There is so much moisture in the soil underneath the school building and surrounding the school property, that the weight of the building is causing the entire school to sink several inches a year. That same moisture is causing dry rot and warping the building's supporting structure. Hours have been spent re-leveling and replacing the rotting foundation sections every year. It is a losing battle, as more and more moisture damage occurs each year. The leaking roof adds to the problem as the water flows down the wall and onto the foundation. With improper substrate being used (with the foundation) when the building was built, and the added water being placed on the foundation due to the leaking roof, the problem grows rapidly.

The school building is located about 500 yards away from the Kuskokwim River. Due to the moisture associated with the river, we have large sections of the school's exterior walls bowing and causing the outside trim to pop off. The continued bowing has increased to the point of warping the window frame, causing window breakage.

Also at this school, due to bowing of the building walls and pressure buildup from the sinking ground, the main power box often rips off the side of the school building when the winds blow.

The need for major maintenance for our school districts is real and it is significant. For many schools the need is urgent. For all school districts, the financial impact is substantial, and for REEA school districts, there are no real alternatives for obtaining funding for these needed projects. For small rural village schools, there are no options for moving to another location - there are no extra buildings available in those villages for educating our children. It is unimaginable to me that we are sending our educators and children into these conditions and expecting them to have a high quality education experience.

I am deeply grateful to you all for your time today and for the time you give every day in service to our State. Thank you for giving your attention to this critical matter.

[3:04:21 PM](#)

Representative LeBon asked if the focus of the coalition was on rural schools.

Ms. Sledge responded that it was not necessarily the focus. The coalition was originally founded to help rural schools, but it had urban members as well. Major maintenance was needed in both rural and urban areas.

Representative LeBon agreed. He asked what involvement the coalition had in the big five districts: Juneau, Kenai, Anchorage, Matanuska-Susitna, and Fairbanks.

Ms. Sledge responded that ASD was one of the members of the coalition and the other four were not. She shared that the work done around REEA funding was significant. She knew that the need for major maintenance was great.

Representative LeBon asked about the nature of ASD's membership in the coalition.

Ms. Sledge responded that there were school district memberships, and the majority were REAA or small school districts.

Representative LeBon was curious as to why ASD was a member of the coalition and FNSB was not. He wondered what the reason for this was and asked about the role ASD played in the coalition.

Ms. Sledge responded that she did not know why FNSB had historically not been part of the coalition. She understood that ASD saw the value in membership because it helped support rural school districts. There was significant transition of students from rural school districts to larger urban school districts.

Representative LeBon wondered what benefits ASD experienced through its membership in the organization.

Ms. Sledge thought the benefit was to better support all of Alaska's school children.

[3:07:12 PM](#)

NILS ANDREASSON, DIRECTOR, ALASKA MUNICIPAL LEAGUE, thanked the committee for its work with the operating budget. He relayed that school construction and major maintenance funding was one of Alaska Municipal League's (AML) priorities. He noted that a number of resolutions had passed that spoke to the need to fully fund school bond debt reimbursement and greater funding for school construction and major maintenance. He relayed that AML had looked at the amount of annual school construction and major maintenance that had been funded over the past 11 years and saw that it had only been funded at about 11 percent. Some years there was no funding at all. The cost involved in submitting applications and complying with requirements was significant, as well as the time it took to complete the applications. There had been trends that suggested lower interest in submitting applications to the state because it was perceived that there was little benefit in doing so. He added that there were over 1,000 school facilities in Alaska and 429 of them were 40 years or older. He relayed that age 40 was the age at which school needed major maintenance.

Mr. Andreassen thought it was worth thinking about the replacement costs of schools. He recalled a calculation from a few years ago that put the cost at \$6.3 billion. The reason for AML to have a role in the conversation was because of the 1,000 schools in the state, 757 were municipal owned or maintained. He remembered the earlier conversation during the meeting about the state's responsibility and argued that the state's constitutional obligation did not differ between REEA districts and municipal school districts. The state had a responsibility to provide an education to students and to provide a facility. He acknowledged that cities still played a role in contributing to maintenance. It had been suggested that for a project to be considered a major maintenance project, costs needed to exceed \$50,000, but he stated that just a few years ago that number was \$25,000.

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Mr. Andreassen added that the six-year fiscal plan to pay for major maintenance projects had typically been reported at about \$1.3 billion in the past few years. However, the average cost of projects on the major maintenance priority list since 2011 suggested that the six-year plan would amount to a number closer to \$2.8 billion. There were also 16 districts that were not included on the list. Many of the 16 excluded districts did not provide a request to the state due to there being little benefit due to the costs associated with the application process. A local school district could not perform the needed maintenance on its own.

Mr. Andreassen indicated that the school bond debt reimbursement program had pushed more districts to apply to the grant program. The increase in participation had also increased competition for what has traditionally been limited funding. He recognized that the legislature had supported funding for the programs in the budgets during the last few years. Ultimately, the question that needed to be addressed was whether the state was contributing adequately to meet the needs of the public. He argued that funding has been insufficient, and that data supported that assertion. He recalled that the previous couple of years skewed the understanding the contribution capacity of various entities. The influx of federal relief dollars had not resulted in a windfall of funding for local governments or schools. Most of the funding had been used to replace

lost revenue and maintain local services to ensure that communities could continue to function. At the local level, he thought the federal relief programs were used appropriately. He noted that the federal Bipartisan Infrastructure Law (BIL) did not include funds for major maintenance projects in schools. For example, the funds would not replace roofs. He expressed that it was great to see that there was some potential to save money with improvements in energy efficiency, but that it would not address the list of needed school improvements. He concluded that parallel state investment into schools would be the best way to leverage efforts from the BIL to improve things like water, sewer, energy, and power systems.

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Representative LeBon thanked Mr. Andreassen for joining the committee. He wondered what Mr. Andreassen's opinion was on the appropriate level of responsibility that school districts and boroughs should have in ongoing major maintenance projects. He noted that the borough of Fairbanks owns the FNSB buildings and the school districts were responsible for day-to-day maintenance of the buildings. He asked how active FNSB should be in the effort to keep its school off of the CIP list. He reminded the committee of the roof replacement issue in Fairbanks.

Mr. Andreassen responded that it was primarily the state's obligation, and local boroughs and municipalities should work in partnership with the state. He indicated that just as state resources were constrained, so were local governments. Issues such as roof replacements would be weighed against other issues like homelessness, opioids, and public safety. Public education was already 30 percent of most municipalities' budgets. However, without a state partnership, it would be difficult to meet the needs of students. The reason for the major maintenance program was to facilitate cost sharing between state and local governments.

Representative LeBon thought Mr. Andreasson's response was fair. He thought it was possible that some of the maintenance items could have been avoided with preventative maintenance.

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

Co-Chair Merrick thanked the presenters for their time. She reviewed the agenda for the following meeting.

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ADJOURNMENT

3:22:58 PM

The meeting was adjourned at 3:23 p.m.