

SENATE FINANCE COMMITTEE
February 16, 2022
9:02 a.m.

[9:02:48 AM](#)

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

Heidi Teshner, Acting Deputy Commissioner, Department of Education and Early Development; Tim Mearig, Facilities Manager, Department of Education and Early Development.

SUMMARY

SB 164 APPROP: CAP; REAPPROP; SUPP

SB 164 was HEARD and HELD in committee for further consideration.

PRESENTATION: DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT
FY23 CAPITAL REQUEST

#sb64

SENATE BILL NO. 64

"An Act relating to management of enhanced stocks of shellfish; authorizing certain nonprofit organizations to engage in shellfish enhancement projects; relating

to application fees for salmon hatchery permits and shellfish enhancement project permits; allowing the Alaska Seafood Marketing Institute to market aquatic farm products; and providing for an effective date."

^PRESENTATION: DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT
FY23 CAPITAL REQUEST

9:04:07 AM

HEIDI TESHNER, ACTING DEPUTY COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced herself.

9:04:34 AM

Ms. Teshner discussed the presentation "State-Aid for School Capital Projects: Grant and Debt" (copy on file).

Ms. Teshner looked at slide 2, " Our Mission, Vision, and Purpose":

OUR MISSION

An excellent education for every student every day.

OUR VISION

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

- Alaska Statute 14.03.015

OUR PURPOSE

DEED exists to provide information, resources, and leadership to support an excellent education for every student every day.

9:04:59 AM

Ms. Teshner spoke to slide 3, "Historic School Capital Funding":

1. Federal
2. State Funding Mechanisms (General Fund)
 - Grants (~1970)
 - General Obligation (G.O.) Bonds (2003, 2011)
 - AHFC Revenue Bonds (1999, 2001, 2002)

- Debt Reimbursement (1971)
 - School Fund - AS 43.50.140 (FY1999-present)
 - Others (i.e.: Insurance Fund - AS 22.55.430)
- 3. Local Educational Agency (LEA)
 - Capital Reserves
 - Municipal Debt

Ms. Teshner relayed that the debt reimbursement program had been housed under the Department of Revenue (DOR) until 1983 when it was moved to the Department of Education and Early Development (DEED). She said that the program had always been a proportion of the local debt that had been reimbursed annually and the funds came through the state's operating budget.

[9:07:30 AM](#)

TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, referenced slide 4, "Recent Funding (SB 237 Report)":

- SB 237 (Chapter 93 SLA 2010) - AS 14.11.035
 - Annual report on school construction and major maintenance funding
 - First report completed in February 2013
- \$1,445,438,000 in funding
 - Total project value for Debt projects
 - State share value for Grant projects
- Supplementary handout
 - February 2021 AS 14.11.035 (SB 237) Report
 - Project Funding by District (report Appendix A)
 - Project Listing by District (report Appendix B)

Mr. Mearig referenced Handout 1, entitled "School Capital Project Funding Under SB 237" (copy on file). He said that the current report would be completed at the end of the month.

Mr. Mearig stated that there was a detailed list of funding provided by each district in Handout 1. There was also a detailed list of projects contained in an appendix. He added that there was a couple of new projects that would be in the forthcoming report.

[9:10:21 AM](#)

Mr. Mearig turned to slide 5, "Current Funding Options":

1. School Construction Grant Fund (1990) AS 14.11.005
2. Major Maintenance Grant Fund (1993) AS 14.11.007
3. Regional Educational Attendance Area (REAA) and Small Municipal School District School Fund (2010) AS 14.11.030
 - Indexed Fund
 - DR Funding / % of C/B schools *.244 AS 14.11.025
4. School Debt Reimbursement (DR) Funding AS 14.11.102

Co-Chair Bishop welcomed the department to the committee.

[9:13:19 AM](#)

Mr. Mearig considered slide 6, "Current Project Categories (AS 14.11.013)":

- (School Construction and Major Maintenance)
- (A) avert imminent danger or correct life-threatening situations;
 - (B) house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;
 - (C) protect the structure of existing school facilities;
 - (D) correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;
 - (E) achieve an operating cost savings;
 - (F) modify or rehabilitate facilities for the purpose of improving the instructional program;
 - (G) meet an educational need not specified in (A) – (F) of this paragraph, identified by the department

Mr. Mearig relayed that the slide was an overview of the capital project priority list placement process. He relayed that the items in red (A) were School Construction, and the items in blue (B) were Major Maintenance.

[9:14:43 AM](#)

Senator Hoffman referenced funding the Napakiak school, which was in imminent danger of falling into the Kuskokwim River. He asked which category the school fell under, A or B.

Mr. Mearig stated that the application for the Napakiak School showed the box checked for B, or Major Maintenance.

Senator Hoffman asked what type of projects would fall under project type A, if the Napakiak School did not. He asked whether there had been any projects funded under that category since 2010.

Mr. Mearig replied that districts were asked to check the box most closely related to the primary purpose of the project. He said that there had been projects submitted that fell under the A category. He added that sometimes small repair projects that addressed a code condition were better placed on the A list because it was less competitive for funding. He said that schools with serious issues, and needed to be on the Major Maintenance grant fund list, would check box C or D.

[9:18:17 AM](#)

Senator Hoffman wanted to express that the SB 257 was introduced by the Senate Finance Committee in 2010 because of the Kasayulie v. State of Alaska lawsuit. He shared that the funding in the settlement included funding for SB 257 as part of the agreement. He said that if the projects were not funded according to the legislation's formula the state would be non-compliant with the settlement and vulnerable to lawsuits.

[9:19:20 AM](#)

Co-Chair Stedman asked about major maintenance at Mt. Edgecumbe High School. He noted that the housing for the boys at the school were from WWII.

Mr. Mearig stated that the information on slide 6 was for the 53 public school districts in the state.

[9:20:48 AM](#)

Ms. Teshner addressed Co-Chair Stedman's question. She explained that Mt. Edgecumbe HS did not fall under AS 14.11.013. She said that the school produced a deferred maintenance list each fall, which was then added to the statewide deferred maintenance list. She said that DEED worked with OMB to get the school appropriations every year to address their maintenance backlog.

Co-Chair Stedman recognized that the school was an anomaly in that it was a state boarding school. He pointed out that most of the students came from Northern and Western Alaska. He shared concerns that the enthusiasm for dealing with the school's deferred maintenance was weak. He thought it would be beneficial for the department to return to the committee with photos of the deferred maintenance and clean-up needed at the school. He was concerned the department would not bring forward a request for new dormitories for students. He did not know the condition of the girl's dorm, but he knew they had also been built in WWII. He was concerned about the advocacy base for the school and did not think that the department was advocating as strongly for the school.

Co-Chair Stedman continued his remarks. He did not think the department had advocated strongly enough for the school or as much as a community would have. He requested a status update on the condition of the boy's dorm and the girl's dorm, and that the department return to the committee with a major maintenance list for the school - addressing some specific structures.

Co-Chair Bishop suggested that the report to include information about the \$1.8 million that had been appropriated the previous year for major maintenance at the school. He noted that the governor had vetoed \$100,000 of the appropriation.

[9:24:30 AM](#)

Senator Hoffman had the same concerns as Co-Chair Stedman. He stated that most of the Mt. Edgecumbe students came from Regional Educational Attendance Areas (REAAs). He suggested that the committee ask the Legislative Finance Division if it would be legally possible to modify the law so that the students could have adequate facilities and receive the proper education due to them by the state of Alaska as laid out in the Kasayulie settlement. He reminded the committee that the passage of SB 257 had been a struggle. He stressed that the students at Mt. Edgecumbe were academically exceptional and should be afforded adequate learning facilities.

Senator Hoffman continued his remarks. He argued that people in Urban areas of the state build new schools when they needed them. He thought there was a strong argument

for modifying SB 257 to address the concerns faced by Mt. Edgecumbe.

[9:27:19 AM](#)

Senator Olson thought that because Mt. Edgecumbe was independent from the public school district, the priorities of the school were farther down the list than would be normal.

Ms. Teshner answered "yes and no." She relayed that the school was prioritized over libraries, archives, and museums because there were students at the school. She said that the school had been able to receive a number of appropriations through statewide deferred maintenance over the past few years for both the boy's and girl's dorms as well as other items. She asserted that the department tried to prioritize the school so that the facility was adequate for students

Senator Olson shared that he was concerned that the school had a high achievement rate, but the conditions were poor. He strongly recommended that the school be a higher priority for maintenance dollars.

[9:29:18 AM](#)

Mr. Mearig displayed slide 7, "Fund - Category - Entity Relationships," which showed a table that showed a matrix of how different projects were eligible for different types of funding. He pointed out the example of the 19 REAA districts that were eligible for the funding through the REAA fund the School Construction and Major Maintenance funds but not Debt Reimbursement. Similarly, under the REAA Fund, both school construction projects and major maintenance projects were listed as able to access the funds. He noted that the 30 City Borough Districts were not eligible for REAA funds. He thought that the slide was a handy reference for the state funding mechanisms.

[9:31:32 AM](#)

Co-Chair Bishop noted that the legislature had funded the Major Maintenance Fund the previous year at \$21.6 million, \$7.9 million to Mt. Edgecumbe for dormitory repairs. He noted that the governor vetoed the funding from the capital budget, on top of the \$100,000 veto in the operating budget

for day-to-day maintenance expenses at the school. He lamented that the only item left in was the Houston Middle School appropriation of \$9 million.

[9:32:20 AM](#)

Co-Chair Stedman asked the location of the Houston Middle School.

Co-Chair Bishop thought the school was in the Mat-Su valley.

[9:32:36 AM](#)

Mr. Mearig highlighted slide 8, "Capital Improvement Project (CIP) Eligibility":

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

Mr. Mearig explained that all districts were eligible for capital improvement projects, but there were certain criteria that needed to be met to apply.

[9:33:55 AM](#)

Co-Chair Bishop asked about eligibility criteria for capital improvement projects. He explained that some districts were more equipped than others to complete an application. He asked if the department offered services to assist with the application process.

Mr. Mearig shared that the department did formal training each spring and had an active and vested interest in getting as many districts to participate as possible. He said that limited funding in recent years could have made the application process seem unrewarding as there are limited resources to go around.

[9:35:58 AM](#)

Co-Chair Bishop queried whether Mr. Mearig had enough assets to help rural school districts in submitting a completed application for the CIP eligibility.

Ms. Teshner wanted to expand on Mr. Mearig's comments. She noted that the department could not write applications but could review applications and guide districts through the process.

Co-Chair Bishop thought that school improvements would help with academic performance.

[9:37:07 AM](#)

Senator Hoffman knew his district wanted to exercise its self-determination in designing and building their school. He asked why the department had fought the district on the issue over the last decade.

Mr. Mearig stated that his framework for the process was different than that Senator Hoffman had described. He recounted that he had worked in the Lower Kuskokwim School District in the past and had been successful in achieving alternative delivery on projects on the area. He stated that personally he was a proponent of alternative methods. He did not feel like the department set up roadblocks but did have a series of guidelines to help districts understand which methods would be best for their area. He supported alternative delivery methods and believed that the process was reasonable for districts.

[9:40:11 AM](#)

Senator Hoffman felt that schools should not have to ask for alternative delivery. He felt that the alternatives should be offered as an option for districts to choose from. He noted that the Northwest Arctic Borough had been very happy with design/build delivery.

[9:41:42 AM](#)

Co-Chair Bishop asked Mr. Mearig to explain the acronym "CMGC".

Mr. Mearig explained that "CMGC" denoted a construction manager/general contractor, who was one method of project delivery.

Co-Chair Bishop asked for the main benefit of CMGC.

Mr. Mearig relayed that earlier contractor involvement helped to recognize anticipate change conditions that would require a constructor responsible for construction methods and means. He said that contractor involvement in the design phase could assist districts in fine tuning the design. He said that there were several other reasons, such as scheduling, that could benefit from the CMGC involvement.

Co-Chair Bishop added that an additional benefit was lowered costs and lowered claims and change orders.

Mr. Mearig agreed.

[9:43:28 AM](#)

Senator Olson asked about the Northwest Arctic School Borough. He asked whether Mr. Mearig was the last word on whether a project moved forward or not.

Mr. Mearig stated that the department did make the determination and approve of any alternative delivery methods.

Senator Olson interpreted that the department was the ultimate authority on whether a project moved forward.

Mr. Mearig replied in the affirmative.

Senator Olson commented that the guidelines and regulations were subject to interpretation, and to cut down the dissatisfaction in some areas of the state, the recommendations of people residing in those communities should be weighed heavily against the department's recommendations for delivery. He thought the interpretation He cautioned Mr. Mearig to use his discretion that the students in certain areas weren't compromised by decisions made by the department.

[9:45:13 AM](#)

Senator von Imhof observed in her district that there had been a standardization of elementary schools for efficiency and cost savings. She thought districts should be able to participate in the process. She felt if districts stayed

within guidelines, and budget, they should have the freedom to design their buildings as they see fit.

9:46:47 AM

Mr. Mearig looked at slide 9, "Grant Participation and Eligibility":

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

Co-Chair Bishop asked Mr. Mearig to expand on the appeals process and address the timeline.

Mr. Mearig explained that the reconsideration period was between the issuing of the list on Nov. 5th and the end of November. At that point scores could be revisited. A list was produced in November based on reconsideration, the list usually changed between Nov. 5th and the December list. He stated that after December the opportunity to appeal would be limited to projects that had been raised in reconsideration. He said that an independent hearing officer would then consider the appeals.

9:49:39 AM

Mr. Mearig addressed slide 10, "Grant Participation and Eligibility FY2013 - FY2023," which showed a bar graph entitled 'TOTAL CIP GRANT APPLICATIONS.' He pointed out

that there was generally a downward trend from FY 13 to FY 20. He noted that there had been some rebound in participation after FY 20. He stated that the 2020 number was low but that the number had never dropped below the FY 20 numbers. The small green portion of the bars denoted ineligible projects.

Co-Chair Bishop asked whether Mr. Mearig had any studies on the 50 percent increase from 2020 to 2021. He wondered what was driving the participation rate.

Mr. Mearig thought there was a combination of factors that drove the increase, including an anticipated increase in funding and encouragement from the department.

Co-Chair Bishop asked about the fee for applying for Major Maintenance funding.

Mr. Mearig stated there was no fee for the application. He estimated that the cost of participation was difficult to determine. He had heard of threshold numbers of \$2,000 to \$3,000, and consultant costs could be seen as a cost of applying but could be reimbursed.

[9:53:35 AM](#)

Co-Chair Bishop discussed Major Maintenance in REAA districts. He asked whether applications had to be approved by an engineer.

Mr. Mearig answered in the negative. He added that the department provided series of tools available to districts for generation of an application without any outside help.

[9:54:38 AM](#)

Mr. Mearig advanced to slide 11, "Grant Awards FY2013 - FY2022," which showed a table of funds that had been appropriated into different categories: School Construction Grant Fund (AS 12.11.005); Major Maintenance Grant Fund (AS 14.11.007); REAA & Small Municipal School District School Fund (AS14.11.030). The slide listed the grant awards from FY 13 to FY 22.

[9:55:33 AM](#)

Senator von Imhof commented that when Governor Dunleavy was a senator he often spoke of public/private partnerships with schools, utilizing schools beyond traditional use. She referenced the Kasayulie case and wanted to see an effort whereby the state utilized fund to the best use for every village and every community. She believed that this meant fully utilizing the building year-round, partnering with other local agencies, after hours and during the summer. She had been to several small communities, particularly in Senator Olson's district, and had noticed that schools were closed. She emphasized that students needed a place to meet, use the internet, play basketball, and other activities. She asked if there was a way to combine entities to help utilize the space and offset costs. She wondered whether the opportunity for collaboration had been considered by the department.

Mr. Mearig relayed that there was an opportunity within the current statute to have combined facilities, however the funding could not come through these funds, under statute. He said that the opportunity to have a combined facility was there. He relayed that there was not a formalized process to engage in discussion with districts and communities. He thought collaboration would have to start at the grassroots level.

[9:59:50 AM](#)

Senator von Imhof thought, based on the governor's comments in the beginning of entering office, that DEED would mention the possibility to communities. She added that teacher housing should be a priority when developing school construction projects.

[10:01:31 AM](#)

Senator Hoffman thought there were people in his region that wanted to the things mentioned by Senator von Imhof. He considered that roadblocks were financial. He lamented that there were two gymnasiums in the region that were shut down during the summer months. He hoped the department could take the initiative to think outside the box rather than leaving the solution to the legislature. He referenced the Bristol Bay Borough, which had remodeled its school. He shared that during remodeling, the project had encountered extensive dry rot and asbestos. He said that stopping the project would have interfered with the education of

students. He thought the total additional cost overage to the borough to deal with the dry rot and asbestos was significant. He questioned how the department addressed cases such as the borough found, which he thought was not an isolated case.

Senator Hoffman continued his remarks. He asked how the department would support areas that were not first-class cities or boroughs and could not afford to build facilities.

[10:06:43 AM](#)

Mr. Mearig was aware of the project that Senator Hoffman had referenced and acknowledged that the project had run into some unforeseen problems. He relayed that funding for the project had been allocated in 2019 when the legislature appropriated \$24 million. He said that the department hoped for contingencies when executing projects, but in the case described by Senator Hoffman there had been none. He said that the district could come back to the department for additional funding or seek out another entity to help shoulder the cost. He said that 65 percent of the overruns were eligible to be paid covered by the state, but there had not been any money available.

[10:08:33 AM](#)

Senator Hoffman wondered why the funding for the overrun was not brought before the legislature in a supplemental request.

Mr. Mearig understood that a supplemental request would have been a possibility.

Senator Hoffman asked why the supplemental request was not made and asked whether the department had requested that the administration make the request.

Mr. Mearig replied that he had no knowledge of the request for supplemental funding for the Bristol Bay Borough project.

Senator Hoffman thought that if the cost was eligible for state support the department should have worked to support that community by requesting the supplemental funds.

Mr. Mearig thought Senator Hoffman's questions and remarks might be beyond his per view. He acknowledged that the department would be helping the district in understanding what the override costs were as they closed the project down. He said that the department would evaluate which costs were eligible for state aid and whether a supplemental would be supported.

[10:10:48 AM](#)

Co-Chair Bishop asked about any lessons learned by the project mentioned by Senator Hoffman. He wondered whether any additional inspection could have prevented, or anticipated, the problem of the dry rot and asbestos.

Mr. Mearig relayed that the district was very proactive in trying to assess the needs of the facility and had funded for assistance from design professionals. He acknowledged that lessons were learned but that projects had faced issues of this nature before. He thought such issues had happened before and would happen in the future.

[10:12:51 AM](#)

Co-Chair Bishop asked whether there was language that could be added to guiding documents for communities that could alert them to consider these factors in their project planning.

[10:13:10 AM](#)

Senator Hoffman asked whether legal costs incurred by the borough in litigation with the state could be recouped in a supplemental request.

Mr. Mearig responded that legal expenses related to a project were eligible for supplemental funds.

[10:13:46 AM](#)

Senator Olson thought it was troublesome that communities, particularly for REAA's, were discouraged to seek funding for projects due to the complexity of acquiring funding. He believed that it was incumbent of the department to make sure communities had guidance and support to navigate the supplemental funding request process. He noted that in his

region the school gym was often the biggest facility in town and doubled as a venue for community events.

[10:16:02 AM](#)

Co-Chair Stedman considered that many projects around the state faced difficulties. He encouraged the department to request the supplementals. He emphasized that schools were a fundamental obligation of the state and ranked high on the list of funding priorities.

Ms. Teshner stated that the department would consider bringing supplemental requests for projects that had overrun their appropriated budget.

[10:17:36 AM](#)

Mr. Mearig looked at slide 12, "Total Eligible Grant Projects and Actual Grant Funding by Fiscal Year," which provided more detail on the number of project applications and the funding provided by year. He drew attention to the bottom of the slide, which showed there were 17 projects on the construction list for FY 22, two of which were funded. He noted that there were 108 maintenance projects of which none were funded in FY 22.

[10:18:39 AM](#)

Senator Hoffman commented that the zero listed under FY 21 and asked if it was because the governor had vetoed 50 percent of the funding appropriated by the legislature. He thought that work could have at least been done on design.

Mr. Mearig stated that it was true there was zero funding because of the governor's veto. He relayed that the general rule of thumb for advancing design was that if sufficient funding could be expected in the subsequent year, design would be done. He said that if it did not look like funding would be available in the year following design, the design would not be done since designs quickly became outdated.

[10:20:46 AM](#)

Co-Chair Stedman asked for refresher as to appropriations in FY 22. He wondered what the appropriation request had been and why the number on the slide showed zero.

Ms. Teshner clarified that in 2021, the 50 percent veto was for school debt reimbursement. She stated that there had been no appropriation to the School Construction Fund.

Co-Chair Bishop believed that the lack of appropriation had been due to the truncated legislative session resulting from the Covid-19 pandemic.

Co-Chair Stedman asked about the zero in FY 22 for maintenance.

Ms. Teshner said that no maintenance funding had been appropriated in the FY 22 budget.

[10:21:31 AM](#)

Co-Chair Stedman asked whether any requests had been made by the administration for the FY 22 maintenance funding.

Ms. Teshner could not recall whether there had been a request in the governor's FY 22 budget request. She said she could get back to the committee with the information.

[10:22:10 AM](#)

Co-Chair Bishop asked whether he mis-spoke earlier regarding the governor's veto of FY 22 maintenance funds.

Ms. Teshner did not recall. She agreed to follow up with the committee.

[10:23:22 AM](#)

Mr. Mearig showed slide 13, "Appropriations into the REAA and Small Municipal School District Fund," which showed a table depicting a history of appropriations into the REAA and Small Municipal School District Fund.

[10:24:02 AM](#)

Mr. Mearig referenced slide 14, "Allocations from the REAA and Small Municipal School District Fund," which showed a table listing all the allocations from the REAA and Small Municipal School District Fund over the last 8 years.

[10:24:33 AM](#)

Mr. Mearig turned to slide 15, "Debt Reimbursement and Eligibility":

1. Debt Reimbursement program is established in AS 14.11.100
2. Capital Improvement Project (CIP) Debt Application
 - a. May be received at any time the Debt Reimbursement program is open.
 - b. CIP Application materials are posted on our website(<https://education.alaska.gov/facilities/facilitiescip>)
3. Project Ranking
 - a. Projects are not ranked or evaluated for prioritized need
4. Eligibility
 - a. All types of Cities, except 3rd Class
 - b. All types of Boroughs
 - c. Districts must have a six-year plan, a fixed asset inventory system, adequate property loss insurance, and a preventive maintenance and facility management program certified by the department

[10:26:33 AM](#)

Mr. Mearig considered slide 16, " Debt Reimbursement Trends":

- Percentage of Annual Debt Service
 - FY1971 - FY1977 100%
 - FY1978 - FY1983 90%
 - FY1984 - FY1994 80%
 - FY1995 - FY1999 70%
 - FY2000 - FY2015 70% / 60% *
 - > SB64 (Chapter 3 SLA 2015) implemented a moratorium on additional debt reimbursement through FY2020
 - > HB106 (Chapter 6 SLA 2020) extended the moratorium on additional debt reimbursement through FY2025
 - FY2026 - FY20xx 50% / 40% **

*Northwest Arctic Borough at 90% for bonds between 1990-2006

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

[10:27:29 AM](#)

Mr. Mearig displayed slide 17, "Debt Reimbursement Trends," which showed a bar graph showing total dollars, over time, distributed through debt reimbursement. He cited that the bulk of projects had fallen into the 70 percent reimbursement rate.

[10:28:06 AM](#)

Ms. Teshner highlighted slide 18, "Debt Reimbursement Trends," which showed the outstanding state liability. She stated that if the moratorium were lifted, and there were no additional bonds approved by voters, FY 2040 would be the last projected year for state payment under the program. She cited Handout 2, which provided the numbers behind the graph (copy on file).

[10:29:03 AM](#)

Senator Hoffman considered lower interest rates and thought school districts had been refinancing. He asked about the pros and cons to the state for refinancing.

Ms. Teshner stated that an upcoming slide would cover the issue.

[10:29:41 AM](#)

Co-Chair Stedman mentioned that several members had requested a calculation of arrears in school bond debt reimbursement over the years. He wanted to ensure that the arrears for the REAA fund made it into the record. He believed that the legislature had never agreed to short-fund municipalities. He reiterated that educating the children of the state was one of the legislature's top responsibilities.

[10:31:22 AM](#)

Ms. Teshner looked at slide 19, "Debt Reimbursement Trends," which showed a table providing information on how the school debt reimbursement program had been funded each year since 1976. The program had been fully funded for 32 of the past 47 years, with significant shortfalls in the 1980s. She noted that some adjustments had been made in the 1990s, with veto adjustments in 2019 and 2020. She added that the program had been fully vetoed in FY 21. She cited Handout 3, (copy on file), which provided the numbers in a

larger font. She relayed that the governor's FY 23 budget proposed fully funding the debt reimbursement program. In Handout 4 (copy on file) there was a breakdown of FY 23 anticipated debt totals by municipality. She shared that there were 18 municipalities that were projected to receive funding in FY 23.

[10:32:31 AM](#)

Ms. Teshner addressed slide 20, "Debt Proceed and Refundings":

Initial Bond Sales

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

Refunding of Bonds

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

Ms. Teshner explained that the refunding could not extend the timeline of paying off the loan.

[10:34:49 AM](#)

Ms. Teshner advanced to slide 21, "Funding Comparison," which showed a table with a comparison of eligibility of funding programs:

REAA/Small Muni

- Available to REAA and 4 small municipal districts
- Funds state share of actual project costs
- Projects are funded by priority from DEED lists
- Specific eligibility requirements:
 1. No new space for MM
 2. Only eligible space for SC
 3. Priority to school construction

Participating share:

REAs - 2%

Small Muni - 10% - 20%

State funding is tied to annual appropriation for debt reimbursement

SC/MM Grant Funds

Available to all school districts

Funds state share of actual project costs

Projects are funded by priority from DEED lists

Specific eligibility requirements:

1. No new space for MM

2. Only eligible space for SC

Participating share required between 2% and 35%

State funding is by legislative appropriation to the funds

Debt Reimbursement

Available to any municipality that has the ability to bond

Funds portion of annual municipal debt payments

Local government sets own priorities

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

Participating share currently at:

40% if not eligible for space

30% all others

State funding is based on when the bond was passed

[10:36:16 AM](#)

Senator Hoffman discussed school construction. He asked about the FY 23 capital improvement projects, which had funding for a "track improvement". He asked how a track improvement qualified under SB 257. He did not believe it has been the intent of the legislature to fund track improvements.

Mr. Mearig stated that the type of project fell under school infrastructure and outdoor recreation. He said that such projects were typically a lower priority but were eligible for funding.

Senator Hoffman thought such items complicated the issue and drew focus and energy away from more meaningful projects.

10:38:32 AM

Ms. Teshner continued to address slide 21. She cited that the participating share listed under each column.

Co-Chair Bishop asked whether Ms. Teshner knew the names of the four small municipal districts.

Ms. Teshner agreed to follow up with the information.

Mr. Mearig listed Klawock, Hydaburg, Kake, St. Mary's and Tanana as the small municipalities.

10:40:24 AM

Ms. Teshner looked at slide 22, "Additional Handouts and Resources":

Supplementary handouts

- FY2023 School Construction Grant Fund List
- FY2023 School Construction Project Descriptions
- FY2023 Major Maintenance Grant Fund List
- FY2023 Major Maintenance Project Descriptions

DEED's Facilities website:

- <https://education.alaska.gov/facilities>
- School Facility Database
- https://education.alaska.gov/doe_rolodex/schoolcalendar/facility
- Preventive Maintenance & Facility Management Program
- <https://education.alaska.gov/facilities/PM>
- CIP Application and Support
- <https://education.alaska.gov/facilities/facilitiescip>
- CIP Grant Priority Lists
- <https://education.alaska.gov/facilities/facilitiespl>

Ms. Teshner showed to slide 23, "Contact Information":

- > Heidi Teshner, Acting Deputy Commissioner
heidi.teshner@alaska.gov
(907) 465-2875

- > Tim Mearig, Facilities Manager
tim.mearig@alaska.gov
(907) 465-6906

- > Kollette Schroeder, Legislative Liaison

kollette.schroeder@alaska.gov
(907) 465-2803

Co-Chair Bishop expressed appreciation for the work done by the department.

10:41:33 AM

Senator Hoffman thanked the department for considering the school in Napakiak. He thanked the governor for travelling to the YK Delta and viewing the school personally. He commented that schools were high priority and that the intent of SB 257 had been to provide high quality education in rural Alaska, which included quality facilities.

SB 164 was HEARD and HELD in committee for further consideration.

Co-Chair Bishop relayed that the afternoon meeting was cancelled.

#

ADJOURNMENT

10:42:48 AM

The meeting was adjourned at 10:42 a.m.