

HOUSE FINANCE COMMITTEE
March 17, 2025
1:33 p.m.

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CALL TO ORDER

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

MEMBERS PRESENT

Representative Andy Josephson, Co-Chair
Representative Calvin Schrage, Co-Chair
Representative Jamie Allard
Representative Jeremy Bynum
Representative Alyse Galvin
Representative Sara Hannan
Representative Nellie Unangiq Jimmie
Representative DeLena Johnson
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Neal Foster, Co-Chair

ALSO PRESENT

Lacey Sanders, Director, Office of Management and Budget;
Christopher Hodgin, Project Delivery Team Lead, Division of
Facilities Services, Department of Transportation and
Public Facilities; Danny Gibson, Director, Division of
Facilities Services, Department of Transportation and
Public Facilities.

SUMMARY

PRESENTATION: STATE DEFERRED MAINTENANCE UPDATE

Co-Chair Schrage reviewed the meeting agenda.

^PRESENTATION: STATE DEFERRED MAINTENANCE UPDATE

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LACEY SANDERS, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced the PowerPoint presentation "Deferred Maintenance Overview," dated March 17, 2025 (copy on file). She continued on slide 2 and detailed the scope of deferred maintenance in Alaska. She stated that deferred maintenance referred to repair projects for buildings that had been postponed due to insufficient funding within an agency's normal operating budget. She reported that the state maintained nearly 2,000 facilities, including 402 university buildings. The types of facilities varied by agency and created specific challenges in managing deferred maintenance needs.

Ms. Sanders relayed that the University of Alaska (UA) maintained classrooms, laboratories, research space, and residential halls, while the Department of Corrections (DOC) and the Department of Health (DOH) operated 24-hour facilities. She added that the Department of Military and Veteran Affairs (DMVA) managed armories across the state, and the Departments of Natural Resources (DNR) and the Department of Fish and Game (DFG) oversaw cabins, shelters, and fire suppression and preparedness facilities. She added that the state's facility portfolio extended beyond typical office space.

Ms. Sanders continued to slide 3. She stated that one of the most common areas of concern was the backlog of deferred maintenance. She explained that the Office of Management and Budget (OMB) collected information from state agencies each fall and winter to compile a comprehensive list of deferred maintenance projects. The data shown on slide 3 represented state agencies only and excluded the university, which would be addressed on the following slide. The total backlog for state agencies was approximately \$724 million. She directed attention to two specific categories on the right side of the slide related to the Department of Transportation and Public Facilities (DOT). She stated that one category reflected state-owned facilities within the Public Building Fund (PBF), while the other covered separate facilities owned and maintained by the department, but outside the fund. She clarified that DOT also maintained deferred maintenance lists for highways, aviation, harbors, and the Alaska Marine Highway System (AMHS), but the current presentation would focus solely on facilities and excluded infrastructure projects.

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Representative Stapp asked if the state had calculated the value of its assets. He understood that the assessed value differed from the replacement cost, but he was still interested in knowing the total value of state-owned facilities.

Ms. Sanders responded that she had calculated the value of assets but did not have the information readily available. She suggested that her colleague might have the information.

CHRISTOPHER HODGIN, PROJECT DELIVERY TEAM LEAD, DIVISION OF FACILITIES SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, responded that the assessed value of the state's facilities was estimated between \$9 billion and \$10 billion.

Representative Hannan asked if any of the data included facilities owned by the Regional Educational Attendance Area (REAA) school districts or if those facilities had been excluded.

Ms. Sanders replied that the presentation excluded all school district facilities. She stated that deferred maintenance for those facilities fell under the authority of the Department of Education and Early Development (DEED), which would appear before the committee later in the week.

Representative Hannan asked whether DEED's total on the slide included only state-operated assets, such as the Mt. Edgecumbe High School (MEHS) campus and DEED buildings in Juneau and Anchorage. She asked if other school district facilities were excluded from the chart.

Ms. Sanders responded that the total represented only the Andrew P. Kashevaroff (APK) building in Juneau [the Alaska State Museum] and MEHS in Sitka. She clarified that MEHS was not included under the statutes governing deferred maintenance within the state's school construction and major maintenance programs.

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Ms. Sanders continued to slide 4 which included the 402 facilities managed by UA. She stated that the total deferred maintenance backlog had increased from \$724 million to \$2.2 billion after the UA facilities were included. She reported that UA had approximately \$1.26 billion in deferred maintenance and \$224 million in renewal and replacement needs. The renewal and replacement category aligned with the UA Board of Regents' policy, which combined both deferred maintenance and renewal in its planning documents. She indicated that she was not an expert on the university's deferred maintenance, but she reiterated that the university would appear before the committee soon to explain how it developed its plan and what was included within its reported backlog.

Representative Johnson directed attention to the two largest bars on the chart on slide 3, both related to DOT. She asked for more information about the difference between PBF and the department's other public facilities.

Ms. Sanders replied that the PBF bars referred to state-owned facilities that participated in a lease payment structure to fund ongoing maintenance needs. For example, the State Office Building (SOB) in Juneau was funded by PBF. She explained that the separate category for DOT included other facilities which were owned and maintained by the department but not part of PBF, such as equipment storage buildings or hangars.

Representative Johnson remarked that the explanation was helpful, but she wanted further clarification. She observed that the slide included a footnote stating that highways, aviation, and harbors were excluded. She asked if aviation-related buildings were included, such as hangars.

Ms. Sanders responded that the footnote applied specifically to the second column for DOT. She confirmed that actual road surfaces, aviation runways, and harbor structures such as docks or breakwaters were excluded. However, aviation-related facilities such as hangars were considered buildings and therefore included in the total.

Representative Johnson asked for confirmation that the first bar represented public facilities with a dedicated

maintenance fund, while the second bar represented other DOT assets, such as shops and hangars.

Ms. Sanders confirmed that Representative Johnson's understanding was correct.

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Representative Tomaszewski thought it appeared that UA represented approximately 40 percent of the state's square footage but approximately 68 percent of the total deferred maintenance backlog. He asked why the university's backlog was disproportionately large.

Ms. Sanders responded that the university would be appearing before the committee the following day and could better explain its specific situation. She added that limited resources had led to a scaled-back approach to addressing deferred maintenance across the state, including for the university.

Representative Tomaszewski understood that UA was responsible for addressing its own deferred maintenance. He suggested that he could ask the university the same question when it presented to the committee.

Ms. Sanders agreed that Representative Tomaszewski could ask the university his question.

Co-Chair Schrage added that it was his understanding that the university had developed a more comprehensive and detailed inventory of deferred maintenance needs, which might have contributed to the larger reported backlog.

Representative Hannan stated that she was reviewing the two large facilities attributed to DEED: MEHS and the Alaska State Library Archives Museum. She noted that the museum was likely one of the newest fully state-owned facilities and had been constructed within the past decade. She asked how much of the deferred maintenance figure was attributable to the museum as compared to the other facilities. She asked if annual maintenance was considered when constructing a new building. She asked how two buildings could account for \$25 million in deferred maintenance. She acknowledged that MEHS was a World War II-era facility, but additions had been made to the building. She assumed that buildings constructed in the twenty-first

century would have been better maintained but noted that the available data did not reflect improved maintenance.

Ms. Sanders responded that the deferred maintenance amount for DEED was primarily attributable to MEHS. She acknowledged that the museum building was over ten years old. There was annual funding in the operating budget for routine maintenance, but additional needs sometimes arose, and additional funding was required. She added that the department also owned property for libraries and museums in Sitka and two of the facilities were particularly old.

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Representative Johnson relayed that she had additional questions about the first two bars on the chart on slide 3. She recalled that during the tenure of Commissioner Kelly Tshibaka at the Department of Administration (DOA), there had been a proposal to consolidate lease costs and facility maintenance under DOT. She understood that each department had managed its own facilities and maintenance in the past but that many of the responsibilities had been transferred to DOT and charged back to the departments. She asked for clarification on whether the transfer had been completed and if it explained the current composition of the data.

Ms. Sanders responded that she believed Representative Johnson was referencing the shift in oversight of maintenance project management. She stated that the data shown reflected ownership of facilities by individual departments, such as DEED. She explained that what had been transferred was the project management of maintenance for those facilities, and that responsibility had shifted to DOT. She stated that the department was available to help explain the responsibilities.

Representative Johnson asked if the first bar on the chart reflected buildings covered by PBF. She asked if the backlog reflected the remaining amount of unfunded maintenance after the available funds had been spent. She clarified that she understood the number did not represent all maintenance needs for a given year, but the portion of needs that were not currently funded.

Ms. Sanders responded that the bar represented the cost of deferred maintenance projects for buildings such as the Robert B. Atwood Building in Anchorage and the SOB. She

explained that each year, the capital budget included an appropriation from PBF to address deferred maintenance needs. She noted that the fund did not contain enough resources to cover the entire \$210 million backlog and that the process of addressing the needs occurred incrementally. She did not know the exact appropriation amount, but the capital budget included funding to address a portion of the projects in the public building fund backlog.

Representative Johnson stated that she was trying to understand whether each department was transferring sufficient funds into PBF to cover maintenance obligations. She understood that multiple departments occupied the SOB and asked how maintenance costs were divided among the departments and if the departments were contributing enough to cover maintenance needs. She wondered if each department had a designated line item in its budget for maintenance contributions or if the expenses were embedded within operating costs. She asked for clarification on whether departments were underfunding maintenance transfers and if additional appropriations were necessary to reduce the backlog.

Ms. Sanders responded that departments occupying facilities covered by PBF contributed to the fund through annual lease payments. For example, DOA paid for its own space in the SOB. She stated that lease payments flowed into PBF to cover maintenance expenses. She relayed that increasing the lease rates could generate more revenue for maintenance projects, but additional funding would need to be allocated to the affected departments to cover the higher costs.

Representative Johnson acknowledged that there were different ways to structure maintenance funding. She found the large deferred maintenance backlogs stressful. She was concerned because the legislature often acknowledged the problem but failed to make meaningful progress in addressing the backlog. She thought it would be helpful to understand whether additional funding should be provided to departments or if there needed to be structural adjustments. She stated that she wanted to gain a clearer picture of the underlying causes and potential solutions and whether more funding was needed.

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Co-Chair Schrage stated that he shared Representative Johnson's concerns. He observed that the legislature continued to receive reports of deferred maintenance needs without making significant progress in addressing the needs. The state was able to raise lease rates to fund more maintenance, but it was choosing not to, resulting in continued accumulation of deferred maintenance.

Representative Galvin stated that she was trying to determine which projects were most urgent based on safety and health needs. She asked if there was also a list identifying facilities that needed to be fully replaced. For example, she understood that the Fairbanks Pioneer Home (FPH) needed a full replacement. She asked if such facilities were tracked separately from deferred maintenance.

Ms. Sanders responded that there was a short list of facilities in need of full replacement and confirmed that FPH and the Fairbanks Juvenile Justice Center were on the list. She stated that the facilities were not included in the deferred maintenance backlog but were considered replacement needs with significantly higher associated costs. She suggested that Mr. Hodgkin provide additional information.

Mr. Hodgkin added that DOT maintained a short list of highway maintenance stations that had reached the end of their useful life and required replacement. He stated that some of the projects were already in the design phase.

Representative Galvin thought that deferred maintenance eventually reached a tipping point where continued investment was no longer efficient. She asked how many items on the deferred maintenance list actually required full replacement or should be removed from service.

Ms. Sanders responded there were multiple short lists maintained by various agencies, but not a single comprehensive list identifying all facilities that required replacement. She explained that an additional factor in evaluating facilities was whether the building continued to serve a necessary purpose. She noted that the state owned many correctional facilities and pioneer homes that continued to be evaluated based on both condition and use.

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Ms. Sanders continued to slide 5, which summarized the statewide deferred maintenance appropriations and provided an overview of the funding mechanism currently in place. She stated that the state's capital income fund (CIF) was the primary funding source for deferred maintenance projects. She reported that Chapter 88, SLA 2018 [SB 107 passed in 2018] had designated the fund for preventative and deferred maintenance of state facilities. She explained that the earnings from the state's settlement with Amerada Hess [State v. Amerada Hess et al.] were deposited into the fund each year. She stated that funding from CIF was then requested in the capital budget and appropriated to OMB, which allocated it to state agencies for specific projects.

Ms. Sander relayed that the slide presented a summary of allocations dating back to FY 20. She stated that once agencies submitted their prioritized lists, a review and ranking process was conducted by DOT Director Danny Gibson and Mr. Hodgin. She relayed that OMB then used the recommendations to allocate funding. She noted that a portion of the total appropriation was retained as unobligated funds to respond to emergencies that occurred during the year, such as failed boilers or roof damage. In FY 25, \$6 million of the \$28 million appropriation had been set aside for emergencies and subsequently transferred to the Disaster Relief Fund (DRF) due to its zero balance. She reported that approximately \$6.5 million in deferred maintenance projects were currently on hold as a result. The money would be returned to the deferred maintenance fund and reallocated if DRF was later backfilled through an appropriation.

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Representative Hannan noted that there was a sharp decline in appropriations shown for FY 21, which she assumed was due to the COVID-19 pandemic. The legislature had adjourned early in 2020 and had only made three authorizations. She assumed that the higher amount for FY 22 likely reflected two years' worth of accumulated funds for public facilities. She asked if her understanding was accurate.

Ms. Sanders responded that Representative Hannan was on the right track. She explained that the \$5.9 million shown for FY 21 was made up of supplemental appropriations that were enacted during the FY 22 legislative session. She stated

that the funds were applied retroactively to address urgent needs.

DANNY GIBSON, DIRECTOR, DIVISION OF FACILITIES SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, continued the presentation on slide 6 and relayed that Alaska faced a substantial deferred maintenance backlog with limited available financial resources. He explained that it was essential to prioritize projects and ensure that the most critical needs were funded. He reported that since 2019, the State Facilities Council (SFC) had served as the primary entity for evaluating and prioritizing deferred maintenance projects for executive branch agencies. He explained that SFC was composed of one representative from each executive branch agency and was facilitated by the Division of Facilities Services (DFS). Each year, OMB and DFS collected deferred maintenance backlogs from agencies for review. He noted that the council typically met between March and June of each year with the goal of delivering a prioritized list of statewide deferred maintenance projects to OMB by July for allocation of funding.

Mr. Gibson stated that the prioritized list was developed using a consistent formula that considered the importance of the facility, the type of system in need of repair or replacement, and the urgency of the issue. He explained that each project was assigned a Project Index Value (PIV) and projects were prioritized based on the assigned value. He noted that Mr. Hodgkin was one of the original founders of SFC and the developer of the PIV methodology. He stated that Mr. Hodgkin would explain the methodology in more detail later in the presentation.

Representative Johnson noted that that the table on slide 5 showed that the Alaska Court System (ACS) had no expenditures for four of the six included years. She asked for clarification on how the court system's maintenance projects were prioritized. She noted that there had been discussion in the past about whether capital needs for the court system were fully captured in the general prioritization process. She expressed concern that the court system had received no funding for deferred maintenance over the past three years, despite its large number of buildings.

Ms. Sanders responded that the court system submitted deferred maintenance project requests through the capital budget process for the December 15, 2024 deadline, and also submitted requests for emergent needs. She explained that not all agencies appeared on the allocation table every year, and not all funding for the court system came through the deferred maintenance prioritization process. She noted that the court system sometimes received direct capital appropriations for specific projects, which would not be reflected in the deferred maintenance data on the slide.

Representative Johnson stated that she understood that the court system could receive direct appropriations for events such as roof collapses or flooding. She emphasized that the court system had a large portfolio of buildings, and she would have expected more stability for ongoing maintenance. She stated that she would follow up offline.

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Representative Galvin remarked that the explanation of the deferred maintenance process had been helpful. She observed that there were no projects listed for the UA system in FY 25 and asked for clarification regarding its absence.

Ms. Sanders responded that the legislature had appropriated approximately \$20 million directly to UA in the prior year for deferred maintenance needs. She explained that because the university received a separate appropriation of \$18.9 million, it did not receive an allocation through CIF in FY 25. The information shown on slide 5 only reflected funding distributed through CIF and did not include all other capital appropriations for deferred maintenance.

Representative Galvin understood that there was a formula to identify and prioritize projects based on need. She would be pleased if the \$20 million appropriation covered all of the needs, but she thought that was unlikely. She was surprised that neither the court system nor the university had any critical needs, such as a failed boiler system. She asked if the implication was that the needs from other departments ranked higher based on the formula.

Ms. Sanders responded that the university's projects were not evaluated through the deferred maintenance prioritization process discussed in the presentation. The university had received a separate allocation and its

projects were not taken into account. The university's projects would have been considered for additional funding if it had not received a separate appropriation.

Representative Galvin asked why the schools were not evaluated using same formula.

Ms. Sanders responded that DEED was responsible for evaluating the school system's needs and it was separate from the process discussed in the presentation.

Representative Galvin asked why it was separate. She noted that each department conducted its own evaluation but still submitted requests to the same appropriating body. She questioned whether it would make sense to include DEED's school maintenance needs in the same formula used by other departments and treat all state funding for public facilities uniformly. She asked if there was a reason for the separation.

Ms. Sanders responded that school facilities were not state-owned and were considered separate from state agency facilities. She explained that the state was not liable for the maintenance of school district-owned buildings. She added that DEED conducted its own extensive project evaluation and ranking process for school facilities. There were some REAA facilities that were exceptions and were addressed through a separate fund and appropriation mechanism.

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Mr. Hodgin continued to slide 7 which detailed the methodology behind PIV and the process for prioritizing deferred maintenance projects. He explained that PIV was used to inform OMB's funding allocations. He reported that the calculation considered three primary factors: the Mission Alignment Index (MAI), the system factor, and the need.

Mr. Hodgin continued to slide 8 and explained that MAI aligned a facility to the core mission of a department. He relayed that it measured how closely a specific facility supported the primary purpose of the agency that owned it. For example, if an agency owned multiple types of buildings, such as warehouses, office buildings, or

hangars, some of the facilities would align more directly with the agency's mission than others.

Mr. Hodgkin relayed that departments were asked to consider several questions, including how well a facility delivered services, how heavily the facility was utilized, how many individuals it served, and whether there were alternative facilities in the same area that could serve the same function. He stated that the most critical facilities were those directly aligned with an agency's fundamental purpose. He emphasized that departments were required to assess the relative criticality of their facilities to guide investment decisions and divestiture considerations. He clarified that the MAI score was determined by the department and reflected its own business decisions.

Mr. Hodgkin moved to slide 9 which included examples of how MAI was applied. He explained that the scale ranged from 0 to 0.9, with critical facilities ranked at the top and non-mission critical facilities at the bottom. For example, a correctional center was critical for DOC's fundamental purpose and a highway maintenance station was critical for DOT's purpose. He stated that other facilities might receive lower mission alignment scores, such as warehouses or general office buildings.

Mr. Hodgkin proceeded to slide 9 and explained the system and needs assessment components. He stated that building systems were evaluated based on function and urgency of repair. The criteria ranged from life, health, safety, and structural systems to more aesthetic or nonessential systems such as interior finishes or groundskeeping. He explained that scores ranged from 0.25 to 1.0 depending on the system's importance.

Mr. Hodgkin continued to slide 10 and stated that any system could rise in priority if its failure impacted life, health, safety, or building operations. For example, a heating system with significant deficiencies could escalate to a high priority due to its effect on the safety of building occupants. He indicated that the need factor was assessed on a scale from five to three, where five indicated imminent system failure and three represented a necessary repair within an appropriate timeframe.

Representative Johnson asked if Mr. Hodgkin had created the formula and process for prioritization.

Mr. Hodgkin responded that he had created the formula.

Representative Johnson acknowledged the complexity of prioritization and that opinions about what should be prioritized could differ. She would follow up online to learn more details.

Representative Hannan asked when MAI had been created and how long it had been used in deferred maintenance planning.

Mr. Hodgkin responded that the system was introduced to SFC in late 2019 and implementation began in 2020. He reported that the system had been in use since 2020.

Representative Hannan acknowledged that some of the committee's frustration could have stemmed from the political challenges in determining deferred maintenance priorities. She asked whether the development of MAI had enabled DOT to produce a more accurate deferred maintenance list, or whether the process still relied on agencies advocating for themselves. She asked if the new process allowed urgent needs to be prioritized appropriately, such as a correctional facility facing a critical security risk. She asked if the system had successfully improved the accuracy and clarity of maintenance spending decisions.

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Mr. Hodgkin responded that prior to the implementation of the current system, individual departments submitted requests directly to OMB, which created a difficult and subjective allocation process. He stated that the need for a more collaborative and objective process led to the development of MAI and the formation of SFC. He explained that each agency's council representative was expected to have professional experience in facilities management and to be able to present and defend the agency's project needs based on objective criteria. The process had led to more robust discussions between departments.

Mr. Hodgkin explained that council members could question whether a system or facility was appropriately ranked and challenge or encourage a reevaluation if the urgency or risk of failure appeared greater than initially expected. He stated that the methodology encouraged objectivity and collaboration and allowed departments to better advocate

for their needs. The methodology had created a functional process and there was no process in place before. He noted that his perspective on process was colored by working with engineers.

Representative Hannan asked if OMB thought the engineering-based evaluation provided a clearer framework for capital budget planning than previous methods. She asked if the process offered more solid ground and clarity for OMB.

Ms. Sanders responded that she had worked with Mr. Hodgkin for many years and emphasized that she was not an engineer. She explained it had previously been difficult for OMB to assess and compare the priorities of 18 agencies advocating for unique and critical needs. She stated that the process developed by SFC had provided a clearer outline for allocating funds. She added that OMB appreciated having authority to retain a portion of funds to address urgent needs that were not yet identified in the prioritized list, which gave the agency important flexibility. She stated that the new process had helped OMB respond more methodically to urgent state needs.

Co-Chair Schrage understood that the system allowed for more accurate prioritization of maintenance projects but did not improve the accuracy of the overall dollar estimate for the state's deferred maintenance and infrastructure needs.

Mr. Hodgkin responded in the affirmative.

Co-Chair Schrage asked how often the state's assessment of infrastructure and deferred maintenance costs was updated. He requested an explanation of the update process and how current the state's deferred maintenance list was.

Mr. Hodgkin responded that in 2024, DOT hired consultants to assist in assessing deferred maintenance needs. The assessment focused specifically on PBF facilities and buildings shared by multiple tenants. There was an added cost associated with hiring outside consultants, but the department tried to account for the cost. He noted that in 2025, DOT planned to conduct a similar assessment for its own facilities, such as maintenance stations and airport buildings. When resources permitted, the department tried to capitalize on the opportunity to conduct objective, updated evaluations.

Mr. Gibson added that the department maintained operating maintenance agreements with many agencies that owned facilities outside of DOT that were not funded by PBF. He stated that DOT liaised with other agencies as often as possible to support and communicate needs observed in the field. He clarified that agencies were ultimately responsible for submitting their deferred maintenance backlogs each year.

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Representative Bynum thought that the presentation illustrated that there was a concerning volume of backlog maintenance. He suggested that nearly all prioritized projects were urgent given the scale of the backlog. He asked how low-cost items were identified and addressed within the current process. He noted that some low-cost projects might not seem critical yet but could become serious problems if the projects were neglected.

Mr. Gibson responded that OMB maintained an unobligated portion of deferred maintenance funds. He explained that the funds could be accessed to address critical events that occurred during the year. He noted that if a system failure arose that was not high-cost, unobligated funds provided a mechanism for agencies to request funding outside of the prioritized list.

Representative Stapp asked whether there was a source that clearly accounted for interagency receipts for operational maintenance. He stated that he had seen an interagency operational maintenance line item for \$45,000 for the "executive's house" which he thought seemed high. He had observed various operational maintenance costs without accompanying justification. He suggested that the state would not have a significant backlog if such amounts were actually being spent on maintenance.

Ms. Sanders responded that the \$45,000 item was in the operating budget. At the request of the legislature the previous year, OMB had allocated operational maintenance costs into a separate allocation within each agency's budget. She noted that the process was new and she requested some grace for the agencies to ensure the accuracy of their figures, with the understanding that there would be an opportunity to revise and improve the

figures the following year. She added that operational maintenance costs often included personal services costs for maintenance staff and were not limited to materials or minor repair expenses. She clarified that personnel hired to maintain facilities would also be captured in the operational maintenance line.

Representative Stapp noted that he would not press further since it was a new process. He asked whether including personal services costs could inflate the operational budget. He added that labor costs were already budgeted elsewhere in departmental appropriations.

Ms. Sanders replied that Representative Stapp was correct that such costs would be "double-counted," which was why capital improvement project receipts were used because the fund codes were considered duplicated. She emphasized that when analyzing the state's budget, it was important to separate non-duplicated costs from duplicated costs. She indicated that capturing all operations and maintenance costs in a single allocation would be challenging and what should or should not be included would differ by agency. For example, the deferred maintenance costs for DOC could look significantly different from the costs for DFG. She explained that DOC might have on-site maintenance personnel whose costs were included, while DFG might incur maintenance expenses for remote facilities such as cabins used during fish-counting operations. She reiterated that maintenance needs and expenditures were not directly comparable across agencies.

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Representative Johnson stated that buildings that were substandard from the beginning often had elevated deferred maintenance costs from day one. She suggested that the number of people served by a facility should be part of the evaluation. For example, the Division of Motor Vehicles' (DMV) office was visited by the public daily and should be treated differently than a warehouse facility. She asked whether the number of people who used a facility was incorporated into the prioritization process.

Mr. Hodgkin responded that such considerations were part of MAI. He explained that the index accounted for a facility's capabilities and level of utilization and was one of the

decision-making factors used by agencies in the prioritization process.

Mr. Hodgkin continued on slide 11, which presented an example from the most recent prioritization cycle conducted by SFC. He reported that over 100 projects had been reviewed, scored, and ranked. He explained that each council member had scored both the system factor and the level of need for the project. The average of the scores was then used to calculate the PIV, which was used to prioritize the projects. He stated that SFC approved the prioritized list of projects, which was then submitted to OMB to help inform its allocation decisions.

Representative Galvin asked how many of the 1,999 facilities had one or more projects included on the master prioritization list.

Mr. Hodgkin responded that there were approximately 100 to 120 projects on the list. However, the included projects represented a small selection of the larger deferred maintenance backlog.

Representative Galvin clarified that her question concerned how many of the 1,999 facilities had any deferred maintenance projects at all, regardless of whether the projects were currently prioritized.

Ms. Sanders responded that she did not have the number available but would follow up with the information. She added that one building might have multiple projects on the list. The duration of a project would depend on the complexity and scope of the project, and projects would likely go through planning, design, and construction phases. The projects provided opportunities for both local and statewide design professionals and contractors through the state's procurement process.

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Mr. Hodgkin stated that typical project costs could be influenced by market conditions, commodity prices, or unforeseen increases in project scope due to unknown conditions or hazardous materials. He acknowledged that while some projects had come in under budget, others had significantly exceeded estimates. He noted that challenges

were communicated back to SFC in order to better inform future cost projections and prioritization strategies.

Representative Johnson asked for more information about SFC. She asked how many members were on the council and where it was located. She wondered if Mr. Hodgkin could follow up with a report.

Mr. Hodgkin responded that SFC was comprised of approximately 10 or 11 members, each representing an executive branch department that owned facilities. He stated that members were expected to have knowledge and expertise in facility management. The council operated under a formal charter, which outlined member qualifications and duties. One of the primary duties of the council was the ranking and prioritization of deferred maintenance projects. The council typically met quarterly. He offered to follow up with more information after the meeting.

Representative Johnson noted that she would request further details after the meeting.

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Mr. Gibson continued the presentation on slide 13 to address funding recommendations and targets. He stated that although there was no definitive rule for how much should be spent on deferred maintenance, the industry standard typically ranged from 1 percent to 4 percent of the replacement value of a facility. The replacement value of the state's facility portfolio was approximately \$8 billion which meant that the state would need to invest between \$84 million and \$337 million annually to meet its deferred maintenance needs.

Mr. Gibson continued that one point he wanted to address that had been raised during the presentation was the relationship between operational maintenance efforts and deferred maintenance. He stated that while he recognized and credited many of the maintenance teams for their work in preventing emergency events, the structure of a commercial facility generally outlasted the lifespan of its system components. He explained that even when a facility was newly constructed, the expectation was that major components such as roofs, boilers, and plumbing systems would need replacement long before the facility itself

reached the end of its life. Although ongoing maintenance supported the longevity of systems, systems at the end of their intended lifespans would likely not be in optimal condition even if the systems were still functioning. He added that the system replacements might not score as urgent needs in the prioritization process and would likely be classified as deferred maintenance. He emphasized that due to limited funding, not all systems could be replaced as needed or as expected.

Co-Chair Schrage asked how much funding had been allocated to deferred maintenance in the governor's budget.

Ms. Sanders responded that approximately \$26 million had been appropriated to the CIF. She clarified that she did not have the precise figure available at the moment. She noted that there were other capital requests included in the budget such as a project to address an Americans with Disabilities Act (ADA) compliance issue at MEHS. She noted that the administration utilized CIF as much as possible, but unexpected issues were often brought directly to the legislature for separate appropriations.

Co-Chair Schrage asked whether any entity recommended appropriating only 0.25 percent of a facility's replacement value annually for maintenance.

Ms. Sanders responded that no such recommendation existed. She acknowledged that the amount being appropriated was insufficient and that the backlog of deferred maintenance continued to grow.

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Representative Bynum understood that based on the current backlog and the fact that there was approximately \$26 million in available funding, it would take around 30 years to resolve the existing backlog, assuming the backlog did not grow. He noted that in 30 years, many other facilities would likely be due for replacement. He was not sure the long-term plan was reasonable. He stated that the current level of investment appeared designed only to stop the backlog from growing rather than reducing the backlog. He asked what the current rate of backlog growth was and if the trend was improving or getting worse. He understood that the situation was trending in the wrong direction and that the state was not catching up. He asked whether the

state kept track of how the backlog changed from year to year.

Ms. Sanders responded that she had not personally reviewed the backlog trends. She added that SFC might not have reviewed the trends either, but she agreed it would be a useful exercise. She acknowledged that the current fiscal environment had not allowed for significant investment in deferred maintenance and that available funds were being used only to meet the most critical needs.

Representative Bynum asked if the state had the capacity to execute on the existing backlog. He suggested that if \$700 million were suddenly appropriated to address the full backlog, the state likely lacked the capacity to manage and complete the associated work. He asked whether the state had ever evaluated its ability to execute such a backlog, regardless of whether there was enough funding.

Ms. Sanders responded that the conversation about capacity occurred during the project allocation process. She stated that it was important to ensure that DOT had sufficient staff capacity to award contracts and that enough contractors were available in the specific project locations. There had recently been an issue in Sitka because DEED had been unable to find an available contractor for a project. She explained that capacity concerns were focused on the department's ability to administer funds but also on communities' abilities to secure contractors. She emphasized that capacity was a key consideration when allocating funding.

Representative Bynum understood that there was a recommendation to set aside 2 percent to 4 percent of the replacement cost value to address deferred maintenance needs. He asked whether there was an existing plan that the department would communicate to the legislature on strategies to resolve the problem. If there was no plan, he asked what the department needed from the legislature in order to create a plan.

Ms. Sanders responded that there was no statewide deferred maintenance plan currently in place. She stated that discussions had occurred in prior years under former Alaska Governor Sean Parnell regarding the development of a statewide plan, but the efforts had been set aside due to the state's fiscal situation. She noted that UA had also

conducted an internal exercise to determine what a sustainable plan would look like for its own deferred maintenance backlog. She stated that there had been proposed legislation related to the university's effort, though she was not aware of its current status. She reiterated that the absence of a statewide plan was tied to the lack of available resources. She offered reassurance that a conversation about establishing a plan could certainly take place, but without funding to support the work, a plan would be of limited use.

[2:45:25 PM](#)

Co-Chair Schrage thanked the presenters. He reviewed the meeting agenda for the following day.

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ADJOURNMENT

[2:46:02 PM](#)

The meeting was adjourned at 2:45 p.m.