CSHB

9

SENATE COMMITTEE REPORT

FURTHER:

5/1/87 DATE TURNED INTO OFFICE _____

Mr. President:

FINANCE Committee considered CSHB 9(Fin)

projected operating and maintenance costs of capital improvements

and recommended:

[ ] replace with CS FOR _____) [] same title
[ ] or adopt _____ CS FOR _____) [] new title

[ ] attached amendment(s) and

[ ] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to _____

[ ] letter of intent adopted _____

Committee [ ] attached or [ ] adopted fiscal note(s)
[ ] new [ ] updated or [ ] previous
[ ] zero [ ] fiscal impact

MEMBERS SIGNING DO PASS	OTHER RECOMMENDATIONS

_____
Chairman signature and recommendation

[ ] Committee Backup Attached

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 4/23/87 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: FINANCE

**FISCAL NOTE(S) ATTACHED _____ **
IN ACCORDANCE WITH AS 24.08.035
(see below)

DATE TURNED INTO OFFICE 5/1/87

Mr. President:

C&RA Committee considered CS FOR HB 9 (Fin)

projected operating and maintenance costs of capital improvements

and recommended:

[ ] replace with CS _____ [] same title
[] new title

[ ] attached amendment(s) and

[ ] do pass

[ ] do not pass

[ ] no recommendation

[ ] individual recommendations

[ ] further referral to _____

[ ] letter of intent adopted and attached

** Committee [ ] attached or [ ] adopted fiscal note(s)
[ ] zero [ ] fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Chairman signature and recommendation

[ ] Committee Backup Attached

5-0052L

Offered: 3/30/87
Referred: Rules

Original sponsors: Davis, Brown and Goll

Note

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 9 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to projected operating and mainte-
7 nance costs of capital improvements."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 24.08.030 is amended by adding a new subsection to
10 read:

11 (b) Before an appropriation bill containing an appropriation for
12 a capital improvement is reported from the committee of first refer-
13 ral, there shall be attached to the bill a fiscal note containing the
14 projected operating and maintenance costs of each proposed capital
15 improvement. The note must identify the state agency, political
16 subdivision, or other public or private entity that is responsible for
17 payment of the projected costs. A revised note shall be prepared and
18 attached to the bill as necessary before the bill is reported from
19 each subsequent committee of referral.

20 * Sec. 2. AS 37.07.030 is amended to read:

21 Sec. 37.07.030. RESPONSIBILITIES OF THE LEGISLATURE. The legis-
22 lature shall

23 (1) provide for a budget review function;

24 (2) analyze the comprehensive operating and capital im-
25 provements programs and financial plans recommended by the governor;

26 (3) adopt legislation to authorize implementation of the
27 governor's comprehensive operating and capital improvements programs
28 and financial plans or appropriate alternatives to those plans;

29 (4) provide for a post-audit function, to cover financial

COMMITTEE COPY

CSHB 9(Fin)
engrossed

87 9 C 1 U

transactions, program accomplishment, and compliance with legislative intent;

(5) adopt or revise the estimate or receipts required to balance the succeeding fiscal year's budget in order that proposed expenditures do not exceed estimated receipts for that fiscal year;

(6) adopt, revise, or initiate revenue measures in order to balance the succeeding fiscal year's budget and the capital improvements section of the budget for the succeeding six years;

(7) require that the projected operating and maintenance costs of each proposed capital improvement, annualized over the life of the improvement, be submitted with legislation and that the source of funding for those costs be identified.

* Sec. 3. AS 37.07.060(b) is amended to read:

(b) The governor shall present the proposed comprehensive operating and capital improvements programs and financial plans in a message to a joint session of the legislature before the fourth legislative day following the convening of the legislature in regular session. The message shall be accompanied by an explanatory report which summarizes recommended goals, plans, and appropriations. The report shall contain

(1) the coordinated program goals and objectives which the governor recommends to guide the decisions on the proposed program plans and budget appropriations;

(2) the governor's operating program and budget recommendations for the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

(3) the governor's capital improvements program and budget recommendations for the succeeding fiscal year and capital improvements program for the succeeding six fiscal years which shall include

COMMITTEE COPY

(A) a description of each project, its estimated cost for the year construction is to start and the estimated cost of the project adjusted for inflation over the estimated period of construction, and the source of financing for the project; the project description for a new building or a new facility or for a major addition to a building or facility should include a site plan, preliminary drawings, and architect's or engineer's total cost estimate for the project;

(B) a summary of projects previously authorized and not yet completed;

(C) a summary, listed by agency, of all previously proposed projects which have been deferred beyond the six years covered by the plan and the year in which construction has been rescheduled to begin;

(D) a forecast of the debt structure of the state and the various debt ratios over the life of the state's bonds outstanding, bonds authorized and to be issued, and bond authorizations recommended in the plan;

(E) a description of additional revenue measures needed to finance the plan in lieu of debt;

(F) bond election bills to authorize the bonds required to fund the projects scheduled for the first three years of the plan;

(G) projections of population of the state and its regions and communities;

(H) economic data and projections necessary for the evaluation of the plan, <u>including projected operating and maintenance costs of each proposed capital improvement, annualized over the life of the improvement, and an identification of the</u>

COMMITTEE COPY

projected funding source for those costs;

(4) a summary of state receipts in the last fiscal year, a revised estimate for the current fiscal year, and an estimate for the succeeding fiscal year;

(5) a summary of expenditures during the last fiscal year, those authorized for the current fiscal year, and an estimate for the succeeding fiscal year;

(6) any additional information which will facilitate understanding of the governor's proposed programs and financial plans by the legislature and the public.

* Sec. 4. AS 27.07.120 is amended by adding a new paragraph to read:

(8) "operating and maintenance costs" means the costs necessary to operate a capital improvement and to preserve each type of capital improvement as nearly as possible in its original or improved condition.

COMMITTEE COPY

No. 2

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: CSHB 9(Fin)
Publish Date: HOUSE 3/30/87

REQUEST:

Revision Date:
Title: Maintenance and Operations Costs for Capital Projects
Sponsor: Rep. Davis
Requestor: Rep. Springer

Agency Affected: DOT&PF
BRU:
Components:

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The department provides maintenance and operations estimates for our capital projects submitted as a part of the capital budget. The concerns in this legislation, then are for those appropriations introduced by the legislative branch. (CONTINUED NEXT PAGE)

Prepared by: Carol Taylor
Phone: 465-2171
Division: Plans, Programs and Budget
Date: 1/22/87

Approved by Commissioner: [signature]
Date: 1/26/87
Agency: Department of Transportation and Public Facilities

Distribution (by preparer):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. CSHB 9(C&RA)

If the fiscal note request is given in a timely manner allowing the department five days for its preparation, there will be no additional cost to the department of providing maintenance and operating costs for capital project appropriation bills. The analysis assumes that last minutes changes to major appropriations bills are not covered by this legislation. Otherwise, substantial overtime costs could be incurred by personnel in an attempt to respond with fiscal notes in the time available.

Zero Fund note w/ analysis
3/30/87

ALASKA STATE LEGISLATURE

..15th.. Legislature ...FIRST Session

HOUSE ....BILL..... NO. .9.....

By DAVIS, BROWN, GOLL

"An Act relating to projected operating and maintenance costs of capital improvements."

CSHB 9(Fin) BY FINANCE

Offered: 3/30/87
Referred: Rules

TITLE: same

Introduced in the House ...1/19..., 19.87.

HISTORY IN THE HOUSE

19		
Jan	19	Read first time and referred to Committee on C&RA, AND FINANCE
Mar	9	Reported back with recommendation that C&RA - CS/CRA - 3 dopass 2 w/A to Finance
Mar	30	Finance - CS/Fin, 8 dopass 1 do not pass - Fiscal Note to Rules
Apr	15	Read second time and CS/Fin adopted Hdv
Apr	15	Read third time and
Apr	15	PASS ed — Yeas 32, Nays 8, Excused 0, Absent 0 — Effective Date: Yeas, Nays, Excused, Absent
		Reconsideration — PASS: Yeas, Nays, Excused, Absent — Effective Date: Yeas, Nays, Excused, Absent
4	15	Reported correctly engrossed
4	15	Signed by Speaker
4	15	Sent to Senate

CHIEF CLERK OF THE HOUSE

HISTORY IN THE SENATE

1987		
4	16	Read first time and referred to Committee on Cra, Fin
5	1	Reported back with recommendation that CRA 4 dopass ~~to Finance~~
		Read second time and
		Read third time and
		PASS — Yeas, Nays, Excused, Absent — Effective Date: Yeas, Nays, Excused, Absent
		Reconsideration — PASS: Yeas, Nays, Excused, Absent — Effective Date: Yeas, Nays, Excused, Absent
		Reported correctly engrossed
		Signed by President
		Returned to House

SECRETARY OF THE SENATE

HISTORY IN THE HOUSE

19	
	Received from Senate
	Concurred in Senate amendment thus adopting: VOTE
	Failed to concur in Senate amendment; asked Senate to recede VOTE
	Senate receded from amendment VOTE
	Senate failed to recede from amendment VOTE
	CC appointed by House
	CC appointed by Senate
	CC adopted by House VOTE
	CC adopted by Senate VOTE
	To enrolling Reported correctly enrolled Sent to Governor
	..... by Governor
	Filed with Lt. Governor
	Chapter No. .....

31-002

5-0052L
Dierdorff
3/26/87

Original sponsors: Davis, Brown and Goll

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR HOUSE BILL NO. 9 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

FIFTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to projected operating and maintenance costs of capital improvements."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

* Section 1. AS 24.08.030 is amended by adding a new subsection to read:

(b) Before an appropriation bill containing an appropriation for a capital improvement is reported from the committee of first referral, there shall be attached to the bill a fiscal note containing the projected operating and maintenance costs of each proposed capital improvement. The note must identify the state agency, political subdivision, or other public or private entity that is responsible for payment of the projected costs. A revised note shall be prepared and attached to the bill as necessary before the bill is reported from each subsequent committee of referral.

* Sec. 2. AS 37.07.030 is amended to read:

Sec. 37.07.030. RESPONSIBILITIES OF THE LEGISLATURE. The legislature shall

(1) provide for a budget review function;

(2) analyze the comprehensive operating and capital improvements programs and financial plans recommended by the governor;

(3) adopt legislation to authorize implementation of the governor's comprehensive operating and capital improvements programs and financial plans or appropriate alternatives to those plans;

(4) provide for a post-audit function, to cover financial

transactions, program accomplishment, and compliance with legislative intent;

(5) adopt or revise the estimate or receipts required to balance the succeeding fiscal year's budget in order that proposed expenditures do not exceed estimated receipts for that fiscal year;

(6) adopt, revise, or initiate revenue measures in order to balance the succeeding fiscal year's budget and the capital improvements section of the budget for the succeeding six years;

(7) require that the projected operating and maintenance costs of each proposed capital improvement, annualized over the life of the improvement, be submitted with legislation and that the source of funding for those costs be identified.

* Sec. 3. AS 37.07.060(b) is amended to read:

(b) The governor shall present the proposed comprehensive operating and capital improvements programs and financial plans in a message to a joint session of the legislature before the fourth legislative day following the convening of the legislature in regular session. The message shall be accompanied by an explanatory report which summarizes recommended goals, plans, and appropriations. The report shall contain

(1) the coordinated program goals and objectives which the governor recommends to guide the decisions on the proposed program plans and budget appropriations;

(2) the governor's operating program and budget recommendations for the succeeding fiscal year organized by agency as required by AS 37.07.020(a);

(3) the governor's capital improvements program and budget recommendations for the succeeding fiscal year and capital improvements program for the succeeding six fiscal years which shall include

(A) a description of each project, its estimated cost for the year construction is to start and the estimated cost of the project adjusted for inflation over the estimated period of construction, and the source of financing for the project; the project description for a new building or a new facility or for a major addition to a building or facility should include a site plan, preliminary drawings, and architect's or engineer's total cost estimate for the project;

(B) a summary of projects previously authorized and not yet completed;

(C) a summary, listed by agency, of all previously proposed projects which have been deferred beyond the six years covered by the plan and the year in which construction has been rescheduled to begin;

(D) a forecast of the debt structure of the state and the various debt ratios over the life of the state's bonds outstanding, bonds authorized and to be issued, and bond authorizations recommended in the plan;

(E) a description of additional revenue measures needed to finance the plan in lieu of debt;

(F) bond election bills to authorize the bonds required to fund the projects scheduled for the first three years of the plan;

(G) projections of population of the state and its regions and communities;

(H) economic data and projections necessary for the evaluation of the plan, <u>including projected operating and maintenance costs of each proposed capital improvement, annualized over the life of the improvement, and an identification of the</u>

projected funding source for those costs;

(4) a summary of state receipts in the last fiscal year, a revised estimate for the current fiscal year, and an estimate for the succeeding fiscal year;

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* Sec. 4. AS 37.07.120 is amended by adding a new paragraph to read:

(8) "operating and maintenance costs" means the costs necessary to operate a capital improvement and to preserve each type of capital improvement as nearly as possible in its original or improved condition.

Offered: 3/9/87
Referred: Finance

5-0052B

Original sponsors: Davis, Brown and Goll

1 IN THE HOUSE

BY THE COMMUNITY AND REGIONAL AFFAIRS COMMITTEE

2 CS FOR HOUSE BILL NO. 9 (C&RA)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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26 and financial plans or appropriate alternatives to those plans;

27 (4) provide for a post-audit function, to cover financial
28 transactions, program accomplishment, and compliance with legislative
29 intent;

CS HB 9 (C&RA)

SB 199

(5) adopt or revise the estimate or receipts required to balance the succeeding fiscal year's budget in order that proposed expenditures do not exceed estimated receipts for that fiscal year;

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21 plans and budget appropriations;
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24 by AS 37.07.020(a);
25 (3) the governor's capital improvements program and budget
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28 (A) a description of each project, its estimated cost
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the project adjusted for inflation over the estimated period of construction, and the source of financing for the project; the project description for a new building or a new facility or for a major addition to a building or facility should include a site plan, preliminary drawings, and architect's or engineer's total cost estimate for the project;

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(C) a summary, listed by agency, of all previously proposed projects which have been deferred beyond the six years covered by the plan and the year in which construction has been rescheduled to begin;

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(4) a summary of state receipts in the last fiscal year, a

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2 succeeding fiscal year;
3 (5) a summary of expenditures during the last fiscal year,
4 those authorized for the current fiscal year, and an estimate for the
5 succeeding fiscal year;
6 (6) any additional information which will facilitate under-
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8 the legislature and the public.
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10 (8) "operating and maintenance costs" means the costs
11 necessary to operate a capital improvement and to preserve each type
12 of capital improvement as nearly as possible in its original or im-
13 proved condition.

HB 9 Kurt
BACK UP

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y STATE CAPITOL
JUNEAU, ALASKA 99811
907 465-3800

MEMORANDUM March 25, 1987

SUBJECT: Amendment for CSHB 9 (C&RA)

TO: Representative Steve Frank

FROM: David R. Dierdorff
Revisor of Statutes

Enclosed is a draft amendment for your consideration.

After reviewing the present provisions of CSHB 9(C&RA), I determined that it was necessary to retain the language related to the committee of first referral. The reason for this is that AS 37.07.030(7), as amended by sec. 2 of the bill, requires the legislature to "require that the projected operating and maintenance costs * * * be submitted with legislation * * * ." (emphasis added) I felt that deleting the language in AS 24.08.030(b) relating to the committee of first referral might be seen as a weakening of AS 37.07.030(7).

Consequently, the approach taken by the amendment is to require that a revised fiscal note, if necessary because of revisions in the bill, be attached by each subsequent committee of referral. I believe that this addresses your concerns.

If I missed the mark, or if I can be of further assistance, please advise.

DRD:mkr
m10/049

Enclosure

Alaska State Legislature

Representative Mike Davis

P.O. Box V
Juneau, Alaska 99811
(907) 465-4930/4941

Interim Office:
P.O. Box 81435
Fairbanks, Alaska 99708

MEMORANDUM

To: House Finance Committee

From: Rep. Mike Davis

Date: March 10, 1987

Re: CSHB 9 (C&RA); Relating to projected operating and maintenance costs of capital improvements.

The passage of CSHB 9 would provide budgetary reform in the drafting of the state's capital budget. This bill would create greater fiscal responsibility in the state by providing legislators with an assessment of the projected operating and maintenance costs of a capital improvement under consideration. CSHB 9 applies only to capital improvements that have been submitted in legislation.

CSHB 9 requires that projected operating and maintenance costs, annualized over the life of the capital improvement, be included in a fiscal note attached to an appropriation bill before the bill is passed out of the first committee of referral. The fiscal note must also include the source of funding for the operating and maintenance costs. CSHB 9 also requires that this information be included in the governor's economic data and projections for use in evaluating the state's capital improvements program.

Under the provisions of CSHB 9, ultimate responsibility for providing the projected O&M costs in the fiscal note resides with the legislator requesting the capital improvement through legislation. Projected O&M costs would be received by asking that this information be provided by the party requesting the capital improvement.

This legislation is not expected to be costly or burdensome to requestors of state grants for capital improvements, and projected O&M costs could be determined at the same time that that the cost is determined for the capital improvement itself. State agencies and some municipalities already provide projected O&M costs in their capital improvement requests.

·— 24.08.210)

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matters which
accomplishing

③ HB9

Sec. 24.08.030. Appropriation bills. Bills for appropriation shall be confined to appropriations and shall include the amount involved and the purpose, method, manner and other related conditions of payment. (§ 31 ch 157 SLA 1959)

Revisor's notes. — Formerly AS 24.30.030. Renumbered in 1985.

Sec. 24.08.035. Fiscal notes on bills. (a) Before a bill or resolution, except an appropriation bill, is reported from the committee of first referral, there shall be attached to the bill a fiscal note containing an estimate of the amount of the appropriation increase or decrease which would result from enactment of the bill for the current fiscal year and five succeeding fiscal years or, if the bill has no fiscal impact, a statement to that effect shall be attached. The fiscal note or statement shall be prepared in conformity with the requirements of this section by the department or departments affected and may be reviewed by the office of management and budget. The fiscal note or statement shall be delivered to the committee requesting it within five days of the request or within two days if the request is made after the 90th day of a regular session, or during a special session of the legislature. If the bill is presented by the governor for introduction in accordance with AS 24.08.060(b) and the uniform rules of the legislature, the fiscal note or statement shall be attached to the bill before the bill is introduced. An amendment or a substitute bill proposed by a committee of referral that changes the fiscal impact of a bill shall be explained in a revised fiscal note or statement attached to the bill.

(b) In addition to the fiscal note required by this section, the sponsor of a bill or resolution may prepare a fiscal note in conformity with the requirements of this section and submit it to the committee of first referral or the finance committee. A committee may prepare an additional fiscal note in conformity with the requirements of this section.

(c) A fiscal note for a bill or resolution must contain the following information:

(1) the fiscal impact on existing programs;

(2) the fiscal impact of new programs or activities;

(3) a line item detail of the fiscal impact;

(4) the source of funds expected to be utilized by general fund source, federal fund source, or other identified source;

(5) the number of new positions which may be required, identified as full-time, part-time, or temporary;

(6) an analysis of how the figures in the fiscal note were derived:

(7) additional information necessary to explain the fiscal note;

(8) a fiscal impact projection for the current fiscal year and for the succeeding five fiscal years; and

(9) formal information consisting of

(A) the bill or resolution number,

(B) the name of the prime sponsors,

(C) the date the fiscal note was prepared,

(D) the name of the committee requesting the fiscal note,

(E) the name and phone number of the person who prepared the fiscal note, and

(F) the budget request unit, program, or subprogram affected.

(d) The original of a fiscal note shall be submitted to the Division of Legislative Finance and copies shall be sent to the prime sponsor, the committee requesting the fiscal note, and the office of management and budget. (§ 1 ch 153 SLA 1968; am § 1 ch 20 SLA 1972; am § 1 ch 42 SLA 1976; am § 2 ch 60 SLA 1979; am §§ 3, 4 ch 63 SLA 1983)

Revisor's notes. — Formerly AS 24.30.035. Renumbered in 1985.

Effect of amendments. — The 1983 amendment designated the existing language as subsection (a) and added subsections (b), (c), and (d); and in present subsection (a), in the first sentence inserted "or resolution, except an appropriation bill," following "Before a bill" and substituted "current fiscal year and five succeeding fiscal years" for "ensuing fiscal year and at least two succeeding fiscal years", in the second sentence inserted "in conformity with the requirements of this section" and added the language beginning "and may be reviewed", and inserted the present third sentence.

Sec. 24.08.036. Fiscal notes on bills affecting state retirement systems. Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035. (§ 2 ch 130 SLA 1977; am § 3 ch 60 SLA 1979; am § 81 ch 6 SLA 1984)

Revisor's notes. — Enacted as AS 24.30.037. Renumbered as AS 24.30.036 in 1977. Renumbered again in 1985.

Effect of amendments. — The 1984 amendment deleted "shall be prepared by the Legislative Board of Retirement Benefits and" following "analysis" in the second sentence.

Sec. 24.08.037. General obligation bond bills. A bill authorizing the issuance of general obligation bonds creating a state debt for capital improvements shall contain a statement of the scope of each project included in the proposed bond issue. The statement shall include a brief description of each capital improvement project, its location, and, in dollars, that portion of the total bond issue to be allocated to the project. (§ 2 ch 70 SLA 1973; am § 30 ch 197 SLA 1975)

Revisor's notes.
24.30.037. Renumbered
Cross references.
relating to the respon

Sec. 24.08.040.
shall be: "Be it e
(§ 32 ch 157 SLA

Revisor's notes.
24.30.040. Renumbere

Sec. 24.08.050.
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Handout to CRA Com.
by A.W. Longacre, DCRA
3/6/87

CONSTRUCTION VS M&O
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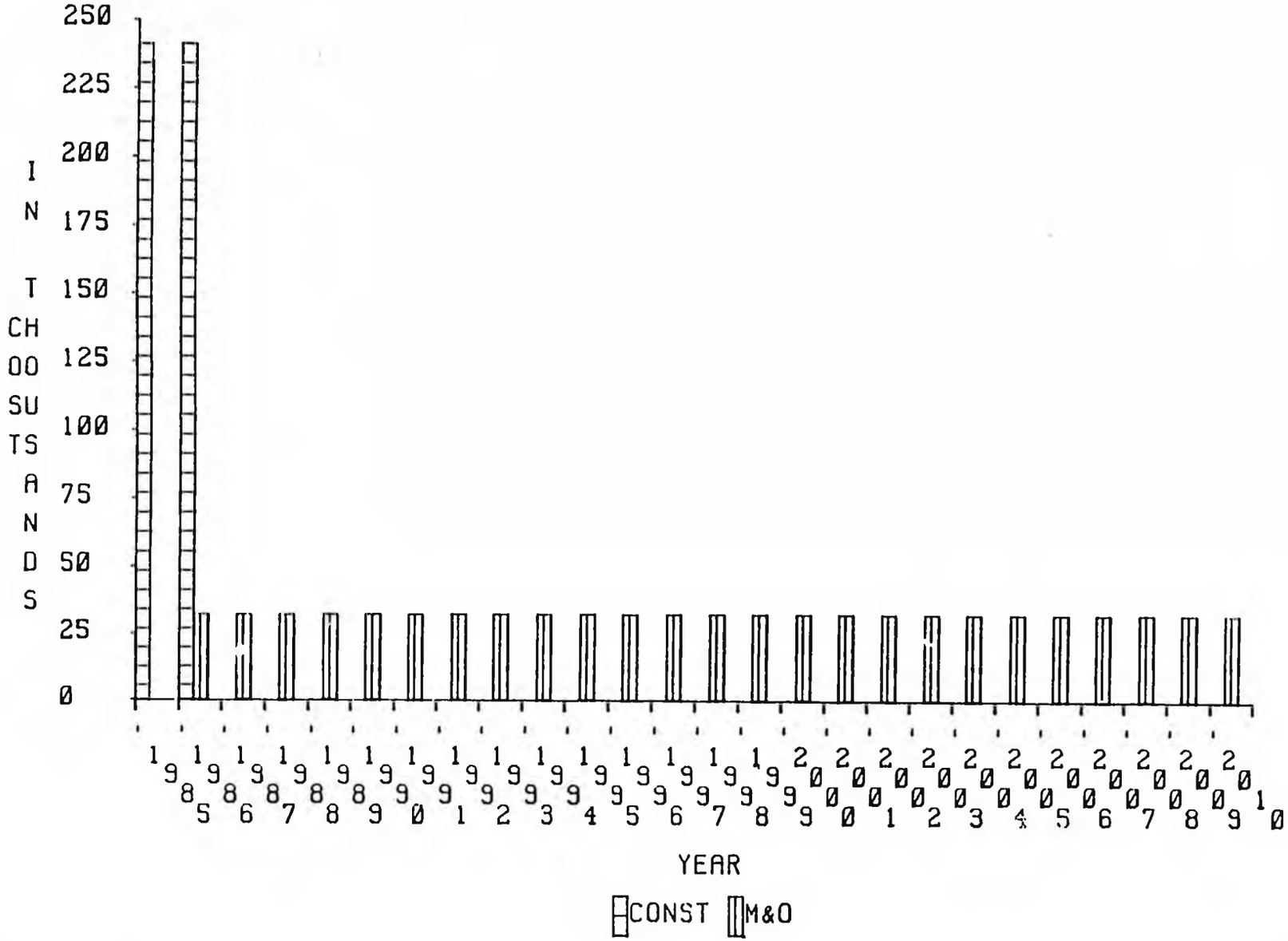
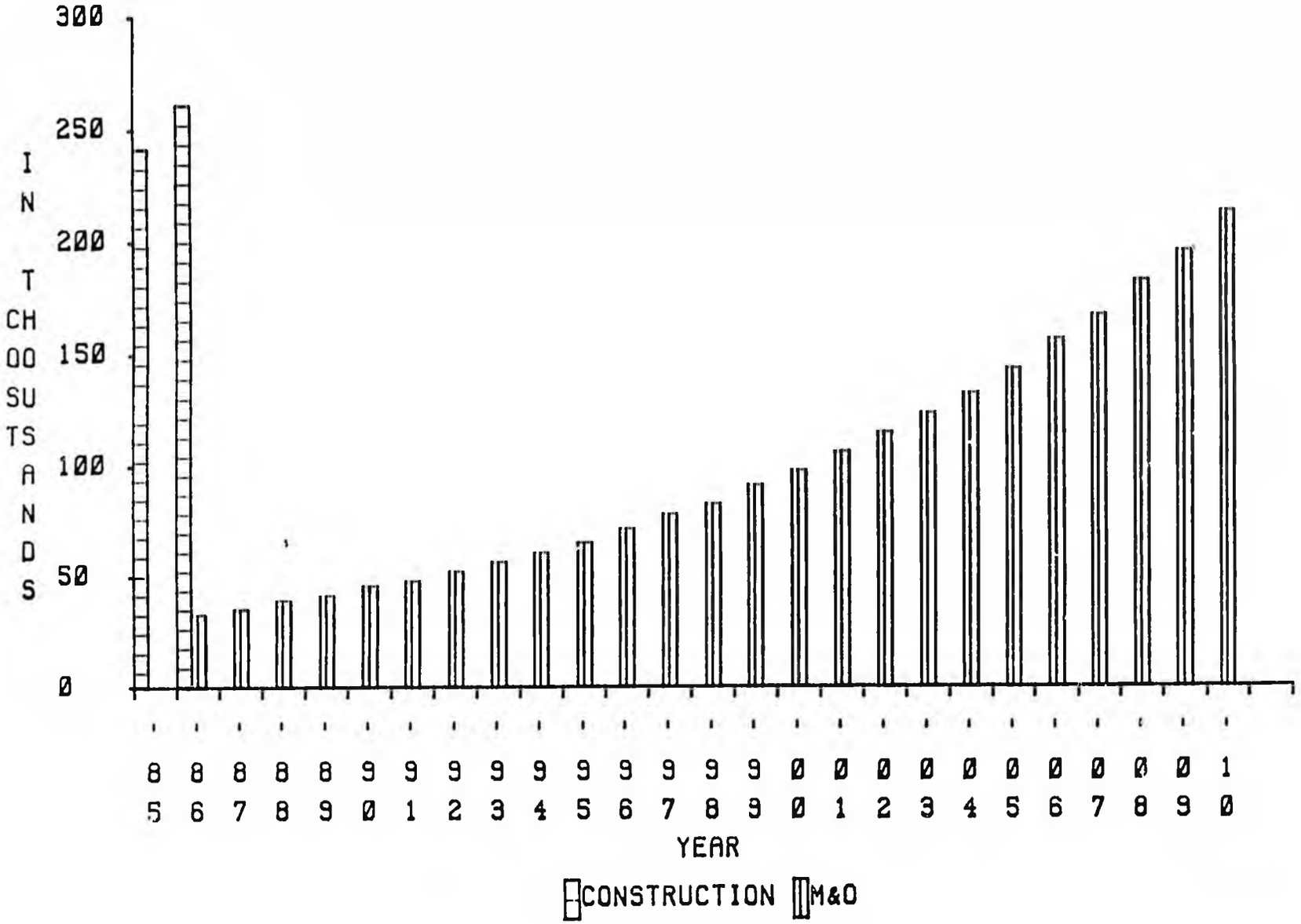
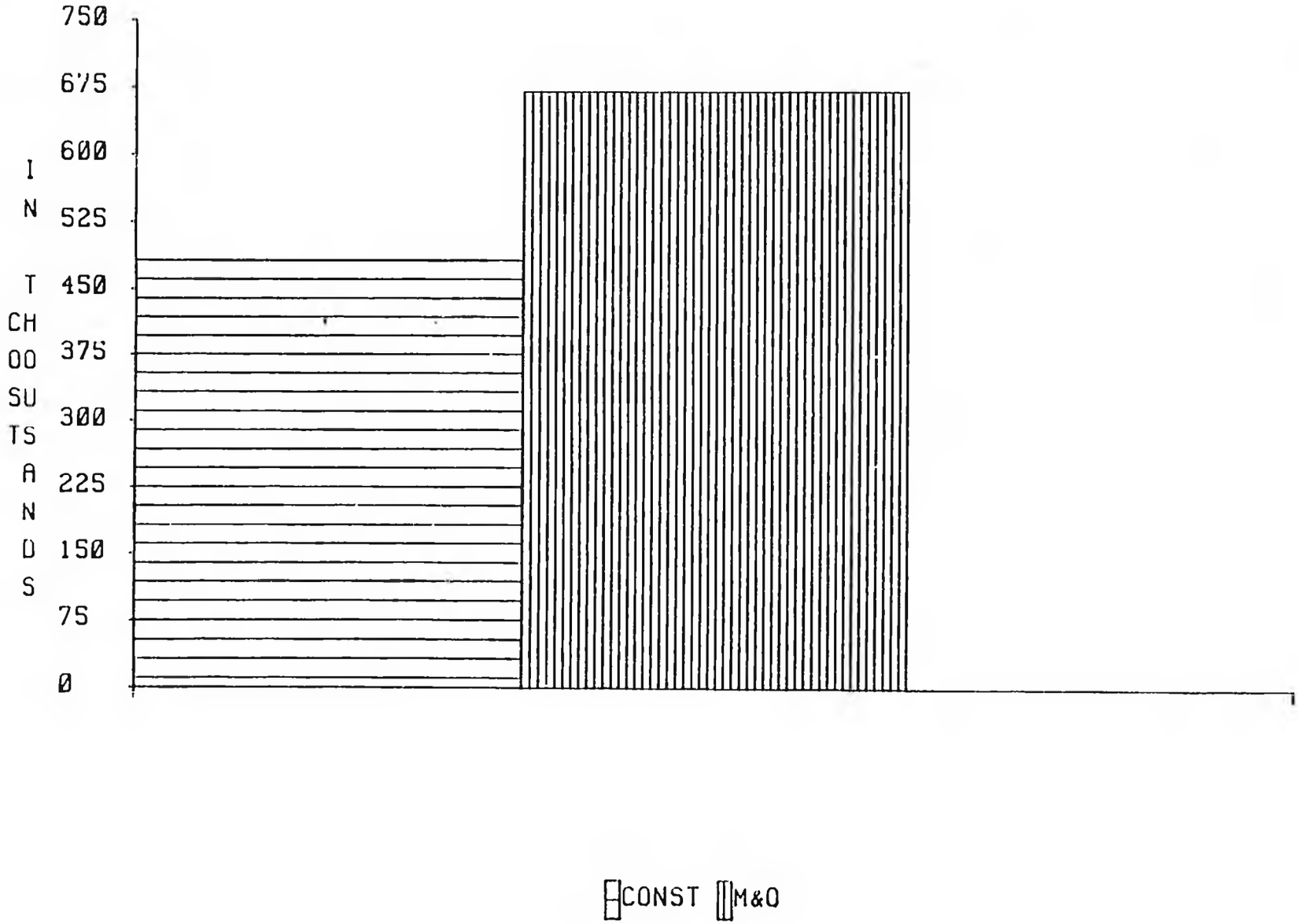


COMPARISON OF
CONSTRUCTION VS. M&O
WITH EIGHT PERCENT INFLATION



LIFETIME TOTALS
CONSTRUCTION VS M&O
WITH ZERO INFLATION



COMPARISON OF LIFE CYCLE COSTS
CONSTRUCTION VS. M&O
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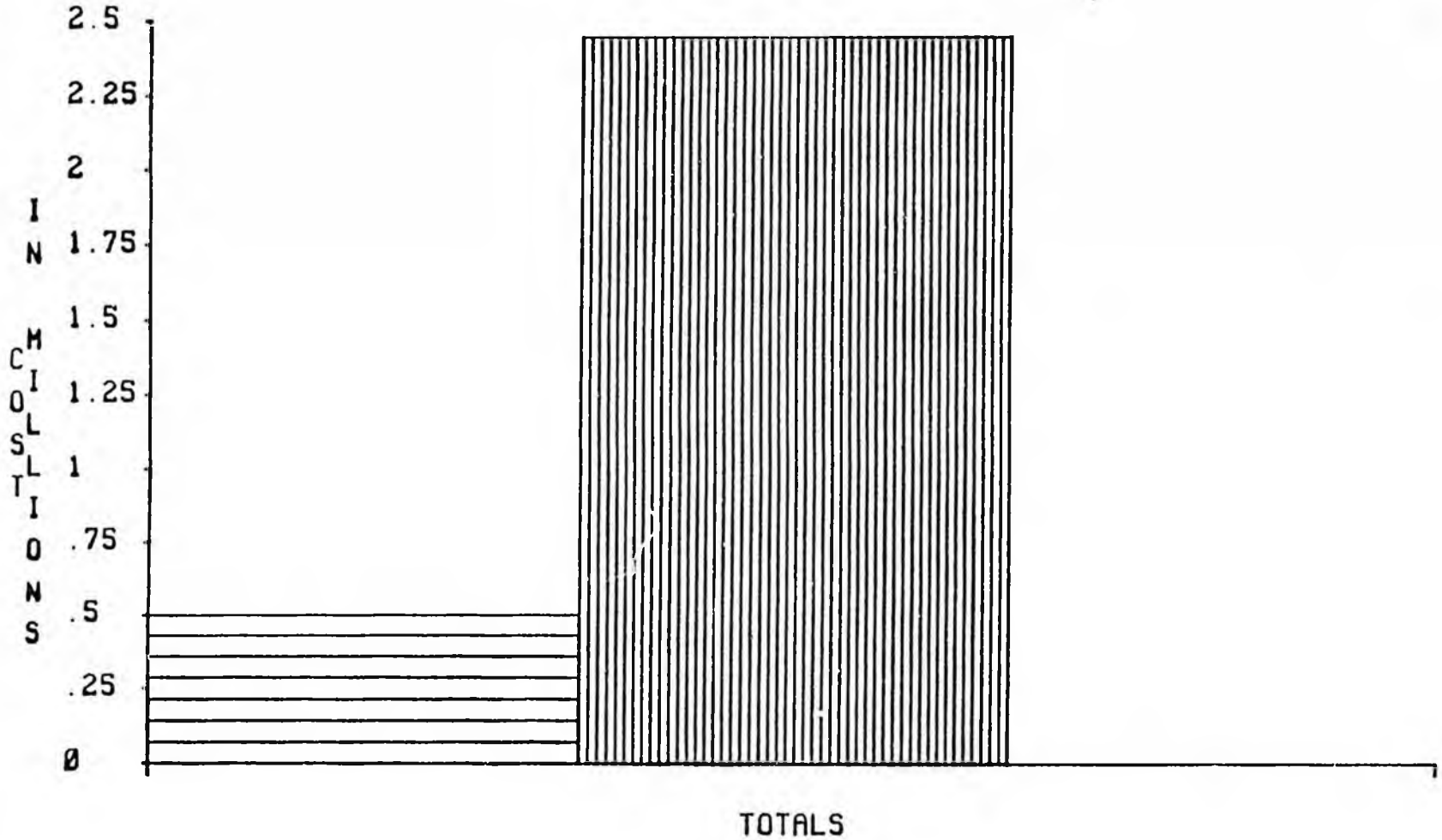

TOTALS

CONSTRUCTION M&O

PROJECT TITLE: ACENCY PRIORITY: ___ ___ OF ___ ___

LOCATION:

ELECTION DISTRICT: FISCAL YEAR: ___ ___ DURATION: ___ ___

APPROPRIATION TO: PROGRAM:

	FUNDING:	CAPITAL REQUEST	REVISED REQUEST	OPERATING COSTS
1002	FEDERAL RECEIPTS			
1003	GENERAL FUND MATCH			
1004	GENERAL FUND			
1005	INTER-AGENCY RECEIPTS			
1028	PROGRAM RECEIPTS			
	TOTALS:			
			POSITIONS (PFT):	

PROJECT DESCRIPTION AND JUSTIFICATION:

LINE (1)

LINE (2)

LINE (3)

LINE (4)

CP1 CAPITAL PROJECTS DESCRIPTION

DATA ENTRY WORKSHEET

(6/84)-cp1

WORKSHEET

Page ____ of ____

Revised Date

FY 87

CAPT-02 STATE OF ALASKA -- CAPITAL PROJECT DETAIL

12/19/85 15:45

14 - DEPARTMENT OF TRANSPORTATION/PUBLIC FACILITIES RECORD KEY: 14454D0T03 52410725

CLASSIFICATION: 00 000 00 00 LOCATION CODE/PRIORITY: / PROGRAM: HIGHWAYS PAGE: 40

PROJECT TITLE	LOCATION	ELECTION DIST	AGENCY PRIORITY	--- PROJECT --- START	DURATION	PFT POSITIONS	BCH
D RICH HWY SHOULDER & WIDEN	FAIRBANKS	18	143	FY87	0 MOS.		

FUNDING	REQUESTED	REVISED	OPERATING COSTS
1004 GENERAL FUND	620.0		18.0
****** TOTAL COSTS	620.0		18.0

OJECT DESCRIPTION: APPROPRIATED TO STATE AGENCY

1 WIDEN AND PAVE SHOULDERS FROM APPROXIMATELY 12 MILE VILLAGE TO FLOOD CONTROL PROJECT. THE ROAD IS THE MAIN ROUTE FOR REFINERY TRUCKS AND INTERSECTS WITH THE ACCESS TO THE NEW NORTH POLE HIGH SCHOOL. THIS PROJECTIS SUPPORTED BY THE LOCAL GOVERNMENT.

2 THE CITY OF NORTH POLE HAS EXPERIENCED RAPID GROWTH AND DEVELOPMENT ON BOTH SIDES OF THE OLD RICHARDSON DURING THE PAST 2 YEARS (NORTH POLE REINERY EXPANSION, NEW HIGH SCHOOL, RESIDENTIAL DEVELOPMENT, ETC). THE EXISTING 20' ROADWAY IS INADEQUATE TO HANDLE THE INCREASED COMMUNITY AND TRUCK TRAFFIC. COMMUNITY AND SAFETY CONCERNS MAKE THIS A HIGH LOCAL PRIORITY.

3 THE WIDENED ROADWAY AND FORECASTED TRAFFIC INCREASES ARE EXPECTED TO INCREASE MAINTENANCE REQUIREMENTS ON THIS SECTION.

ALASKA LEGISLATIVE PROCEDURES STUDY

FINAL REPORT

Submitted to:

The Joint Special Committee on Legislative Reform

Prepared by the

NATIONAL CONFERENCE OF STATE LEGISLATURES

1125 Seventeenth Street, Suite 1500

Denver, Colorado 80202

May 15, 1983

2. The Alaska Legislature should develop a standard form for capital projects which describes the purpose of and need for each project. A completed form should accompany each proposed capital project and be available for public inspection.

Discussion: In order to make well-informed decisions about capital projects, legislators need detailed information on the purpose of and need for each proposed project. Several legislators expressed frustration over the often inadequate documentation for proposed capital projects--especially local projects.

The standard form should include, at minimum, the following elements:

- Project title
- Project purpose
- Project justification (e.g., needed to protect health or welfare of citizens, to respond to court order, to encourage economic development, etc.)
- Alternative ways of dealing with the problem at hand
- Alternative funding sources if project is not funded
- Estimated capital expenditure requirements over the next five years, by year
- Estimated operating expenses which will be generated by this project, over the next five years, by year

A compendium of the completed capital project forms should accompany the proposed state and local capital budgets when they are taken up for consideration by the finance committees.

3. Legislative Finance Division staff or consultants should be responsible for reviewing all capital project proposals to see if the fiscal notes included are reasonable.

Discussion: In recent years, millions of dollars have been reappropriated by the Alaska legislature from excess capital funds appropriated in earlier years. This suggests that initial capital appropriations were not necessarily generous. With revenue projections so where near as high as

ALASKA STATE LEGISLATURE
HOUSE OF REPRESENTATIVES
RESEARCH AGENCY

Pouch Y, State Capitol
Juneau, Alaska 99811
(907) 465-3991

April 4, 1983

MEMORANDUM

TO: Representative Hugh Malone

FROM: Jack Kreinheder
Research Staff

RE: Effect of Capital Projects on Operating Budget
Research Request 83-59

Royce Weller of your staff requested that we provide the following information on the effect of capital projects on the State operating budget:

- a general discussion of the responsibility (local vs. State) and operating costs for different types of capital projects, such as schools, roads, and offices;
- an estimate of the increase in the operating budget over the last five years which was caused by new capital projects; and
- an index of operating costs for various types of capital projects on a unit basis, such as per square foot for buildings and per lane mile for roads.

It was not possible, within the research time available for this request, to determine the operating budget impact of all capital projects over the last five years. The section on this topic focuses on four of the State agencies most affected by the operating costs of capital projects, and on debt service for bonded projects. The budget information which was used for the analysis has several limitations which are discussed in that section. If you would like more comprehensive information on the operating costs of capital projects, we may be able to do additional research later this session or during the interim.

RESPONSIBILITY FOR OPERATING COSTS

A considerable portion of State capital spending over the last several years has been in the form of grants to municipalities. In nearly all cases, local governments are responsible for the operation and maintenance of capital projects built with State grants. Thus, from the

State's perspective, the impact of capital spending on the State's operating budget has been much smaller than would have been the case if most capital spending was for projects under State responsibility. Nearly all port and harbor facilities are also operated by municipalities, so that State spending on harbor improvements does not have a direct impact on the State operating budget.

For some types of capital projects, most notably school construction and projects in small communities, the responsibility for operating costs is not clear-cut. In the case of schools, operating and normal maintenance costs are paid, at least initially, by the local school districts and Rural Educational Attendance Areas (REAAs). State education funding under the foundation program is based primarily on attendance (number of students), not on school operating costs. Therefore, when the State builds a school or provides a grant to a municipality to build a school, the district's or REAA's funding is not directly increased to pay the cost of operating the school. In this sense, it is the school districts and REAAs that are directly responsible for operating costs.

However, as you know, the State provides most of the operating funds for the school districts and REAAs through the education foundation program. In FY 81, the State provided an average of 73 percent of total revenues for school districts and 87 percent of total revenues for REAAs.[1] These figures make it evident that over the long run, the State indirectly pays most of the operating costs of new school facilities. State funding for school districts and REAAs increased by 60 percent from $319.2 million in FY 81 to $509.1 million in FY 83. This increase in funding paid for growth in the number of students and teachers, new programs, and the effects of inflation, as well as the cost of operating new schools.

The situation with capital projects in small communities is similar. Although the communities may be responsible for operation and maintenance of facilities, roads, and other projects, most of their revenues are received from the State through revenue sharing, municipal assistance, and other programs. The impact of these local capital projects on the State's operating budget depends on one's perspective. Conceivably, if State revenues fell dramatically, the State could reduce assistance to municipalities and let them maintain their capital facilities as best they could. However, if these facilities are to be properly maintained, much of this money will have to come from the State.

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[1] Source: Department of Education 1982 Annual Report.

TYPES OF CAPITAL PROJECTS

It is important to consider the effect of different types of capital projects on maintenance and operations (M&O) costs. A review of the capital budgets enacted by the legislature for the past several years indicated that a large percentage of capital appropriations were improvements or replacements for existing facilities, rather than new projects. Any type of repair or maintenance item of $25,000 or more is usually budgeted as a capital project, rather than as an operating item. Capital improvement projects can increase operating costs if a building is enlarged or a road is widened from two lanes to four, but operating costs can also decline when inefficient, high maintenance buildings and deteriorated roads are replaced or improved.

Based on my review of the FY 83 capital budget, about 17 percent of the appropriations had a possible operating budget impact. This figure does not include municipal grants, except for school construction, which are included. For FY 82, about 38 percent of the appropriations had a potential operating budget impact, indicating a larger proportion of spending for "new" projects and State-owned projects in this year.

The variability of maintenance and operating appropriations also affects the relationship between capital and operating expenditures. The various maintenance units in the Department of Transportation and Public Facilities frequently stated in their budget requests that maintenance work had previously been budgeted at a very minimal level, with most major maintenance deferred indefinitely. This type of budget approach would reduce the operating impact of capital projects in the short run, but would also decrease the useful life of most facilities. In addition, if maintenance is deferred until it becomes a major renovation, the appropriation for this renovation would then show up in the capital budget rather than the operating budget.

OPERATING BUDGET INCREASES RESULTING FROM CAPITAL PROJECTS

Debt Service for Bonded Projects

Debt service on general obligation bonds issued by the State is not an operating cost in the normal sense of paying for the actual operation of a capital project. The basic difference between bonding for a capital project and appropriating cash is that bonding spreads the appropriation over a long period of time (which of course requires interest payments). However, debt service on the State's bonded indebtedness is appropriated in the operating budget; therefore, bonding capital projects increases the operating budget in subsequent years. In addition, the payment of debt service is similar to other M&O costs in that it is a long-term obligation which results from the construction of capital projects.

Historical and projected debt service payments from FY 74 to FY 84 are as follows (in millions of dollars):

FY 75	$30.1	FY 80	$75.1
FY 76	35.1	FY 81	97.6
FY 77	41.9	FY 82	102.4
FY 78	50.0	FY 83	141.7
FY 79	60.0	FY 84	178.7

Source: FY 84 Executive Capital Budget, p. 7

For the most recent five years from FY 79 to FY 83, debt service payments have increased by about $82 million. During the same period, the general fund operating budget increased by $1.04 billion, from $888 million in FY 79 to $1.93 billion in FY 83. The increase in debt service therefore accounts for about 8 percent of the growth in the operating budget for these fiscal years.

Debt service payments differ from other M&O costs because, in Alaska, the payments generally extend for only 10 to 15 years, rather than for the useful life of the capital project being bonded. In order to enhance and maintain the State's credit rating, the term of general obligation bonds has been tailored to the projected revenue decline beginning in the late 1980s. This shorter term means that the annual operating costs of bonded capital projects will decline in later years when the bonds are repaid and debt service payments end. However, this decline could be partially offset by increased maintenance costs for older facilities.

Agency Operating Costs for Capital Projects

The State agencies which have seen the largest increases in operating costs as a result of recent capital projects include:

-- Department of Transportation and Public Facilities
-- Division of Corrections (Department of Health and Social Services)
-- Department of Fish and Game (hatchery program)
-- University of Alaska

There are a number of other programs for which operating costs have increased as a result of capital projects, such as health clinics, pioneers' homes, recreational facilities, and water and sewer projects. However, compiling all the capital project operating costs for these and other programs would take considerably more research time than the eight staff days that were available for this request.

The primary method used to determine the additional operating costs for capital projects was a review of agency budget requests. When each State agency submits its budget request to the Governor's Office, it is required to justify any additions to its budget above the continuation level (which is basically the prior year's budget adjusted for inflation and other factors). In theory, any additional costs for operation, maintenance, or personnel from new capital projects should be found on these budget forms. The FY 84 budget forms now include a space for listing the specific capital project which required the additional costs; however, this information was rarely included in the budgets I reviewed.

It is important to note that this budget information includes only agency requests. Actual appropriations and expenditures may vary significantly. However, in terms of evaluating the full maintenance costs of capital projects, agency requests may be a better indicator, assuming that these requests are accurate. Lower appropriations would indicate a sub-standard level of maintenance, which for most facilities would result in either higher maintenance costs in later years or a shorter useful life.

Another consideration regarding the costs presented in this section is that they reflect only additional costs which could not be covered within the existing agency budgets. For some projects, funds in the existing operation and maintenance budget may have been "stretched" by reducing maintenance levels slightly on other facilities to cover the additional costs. Or, if M&O costs declined for any facilities, this savings may have been used to pay part of the M&O cost of new capital projects.

Department of Transportation and Public Facilities

DOT/PF requested a total of about $8.5 million from FY 81 to FY 84 for the operation and maintenance of new capital projects. Table 1 on the following page lists these additional budget requests for each of the four fiscal years. To put this figure in perspective, DOT/PF's FY 83 budget for maintenance and operations is $110.3 million.[2] This indicates that the DOT/PF M&O budget has increased by about 8 percent as a result of capital projects constructed during the last several years.

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[2] This figure excludes M&O costs for the Anchorage and Fairbanks International Airports, which are not funded through the general fund.

Most of these requests for additional M&O funds were for either rural airport improvements or for new road mileage. For example, the FY 83 budget request for the Western region noted that lighting systems, runway extensions, or navigation and communications equipment had been installed at 33 community airports. The FY 82 Interior region budget request stated that 296 lane miles of roads and highways had been added to the regions system since 1979 with only small increases in maintenance funds. A smaller amount of additional funds was requested for building maintenance and operation and for expansion of the design and support staff for capital projects[3]

Division of Corrections

Table 2 contains the amounts requested by the Division of Corrections for new or expanded facilities. These figures include all direct costs of operating and maintaining the correctional facilities, including personnel, the purchase of food and other commodities, and contractual services. The largest budget requests were for the Cook Inlet pre-trial facility ($2.3 million), the Palmer medium security prison ($1.6 million), and the Hiland Mountain expansion ($1.6 million). The Division's FY 83 operating budget is $58.7 million, up from $27 million in FY 80.

TABLE 2

Division of Corrections Additional Budget Requests for Operation and Maintenance of New or Expanded Facilities

FY 84	$3,662,000
FY 83	7,667,000
FY 82	489,000
FY 81	2,360,000
TOTAL	$14,178,000

Department of Fish and Game

The Fisheries Rehabilitation, Enhancement and Development (FRED) Division operates 20 fish hatcheries, as well as engaging in stream restoration, lake fertilization and other activities. The operation of the

[3] During this period, several million dollars (not included here) was requested for capital project design, support and administration as part of the legislative mandate to convert from capital funding for these positions to funding under the operating budget.

hatcheries requires about $6.7 million out of the Division's total $13.5 million FY 83 operating budget.[4] Of the 20 hatcheries, about 11 have been built since 1978 through general obligation bonds. An approximate estimate of the cost of operating these newer hatcheries would be $3.7 million. The average size of the newer hatcheries is larger than the older facilities, so that the actual operating cost of the newer hatcheries would be somewhat larger than $3.7 million.

The cost of operating the hatcheries at full capacity would be larger than the figures cited above. However, because of budget constraints, the Division is operating several of the hatcheries at reduced levels. The Division has also restricted its other functions because funding for the hatcheries has not kept pace with cost increases.

University of Alaska

Time did not permit a complete review of the budget requests for the University of Alaska. However, it was evident from the two fiscal years which were examined that only a very small percentage of the University's budget requests were for the operation of new facilities. Nearly all of the requests were for new teaching positions or other program-oriented purposes. In addition, several of the requests for the operation and maintenance of new buildings were rejected by the Governor.

For example, $772,000 was requested in the FY 84 budget for operating new buildings at the Anchorage and Juneau campuses, all of which was rejected. It is unlikely that the University would allow the buildings to stand empty, so that the cost of operating these buildings will probably be reallocated from other funds. In FY 82, $517,000 was requested (and approved by the Governor) for new facilities, including the Anchorage Community College aviation complex, a Fairbanks power plant addition, and additions to several community colleges throughout the state.

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[4] Source: Stan Moberly, FRED Division Director, personal communication, 3/31/83.

For example, $772,000 was requested in the FY 84 budget for operating new buildings at the Anchorage and Juneau campuses, all of which was rejected. It is unlikely that the University would allow the buildings to stand empty, so that the cost of operating these buildings will probably be reallocated from other funds. In FY 82, $517,000 was requested (and approved by the Governor) for new facilities, including the Anchorage Community College aviation complex, a Fairbanks power plant addition, and additions to several community colleges throughout the state.

MAINTENANCE AND OPERATIONS COST INDEXES

The attached tables include representative maintenance and operations costs for roads and highways, airports, and public buildings. It must be emphasized that the M&O figures, which were provided by DOT/PF, are approximate and are averages. M&O costs for specific facilities can vary considerably depending on location, design, age, level of use, and level of maintenance. It should also be noted that the costs for roads and airports are from a 1981 DOT/PF study; current costs would be about 15 percent higher as a result of inflation.

These M&O figures do not include the non-maintenance personnel costs of operating facilities, for example, teachers' salaries in schools. The staffing levels of schools and other facilities vary considerably in relation to building size, making it inaccurate to use any kind of "positions per square foot" average in determining personnel costs.

Roads

Attachment 1 shows maintenance costs per lane mile per year for eight different types of roads, ranging from 4-lane paved highways to gravel roads less than 20 feet wide. The maintenance costs are also classified by region: Interior, Southcentral, Southeastern, Western and Central (a map of these regions is included on the following page). These costs were compiled by DOT/PF in a 1981 study. The table demonstrates the wide range in maintenance costs both for different types of roads and in different regions. For example, the cost of maintaining 2-lane paved rural primary routes (Type IV) in the Southcentral region is shown as $8,739 per lane mile, compared to only $2,346 per lane mile for gravel secondary roads (Type 6) in the same region. Most of this cost difference is a result of the higher traffic volumes on the primary routes and a higher maintenance level, such as more frequent snowplowing.

The wide spread in maintenance costs in different regions is indicated by the fact that in the Interior region, maintaining a 2-lane paved

rural primary route costs $4,432 per lane mile -- about half the cost for the same road type in the Southcentral region -- while in the Western region the cost for this road type is over $15,000 per lane mile.

Although the large variance in road maintenance costs makes it difficult and somewhat misleading to use a single average figure, a cost of $5,200 per lane mile is often used in DOT/PF budget requests as an indicator of operating costs.

Airports

DOT/PF has also compiled data on the maintenance and operating costs of State-owned airports throughout the state. These costs are summarized in Attachment 2, and are classified for four types of airports and three areas of the state. The airport types, in order of declining size, are: regional center, regional, transport and community. Areas II and III are the same Interior and Western regions used for the information on road costs, while Area I combines the Central, Southcentral, and Southeastern regions. These airport maintenance costs are also for FY 81 and should be inflated by about 15 percent to reflect current costs.

As might be expected, the larger regional airports are considerably more expensive to maintain than the smaller community airports. The average maintenance cost for the regional center airports at the time of the study was about $371,000 per year. Community airports averaged only $14,360 in average maintenance costs. One cost difference which appears unusual at first glance is the much lower cost shown for maintenance of community airports in Area III (the Western region) compared to the rest of the state. One might expect the cost of maintenance to be higher in the Western region because of its remoteness and rugged climate. The most likely reasons for the lower cost shown for the Western region are simply that the airports in many of these communities are very basic, frequently without lighting or communications, and receive very limited maintenance.

It should be noted that an extensive rural airport improvement program has been undertaken over the past several years, and as a result, current maintenance costs are probably somewhat higher (even after adjusting for inflation) than those shown in Attachment 2. Although some airport improvements, such as runway resurfacing, can reduce maintenance costs, other improvements like runway lighting, communications and navigational aids require extensive maintenance to remain operative.

Public Buildings

According to Greg Brown, Acting Statewide Planning Manager for DOT/PF, the annual maintenance and operating cost of a new office building or school in Anchorage or Juneau would probably fall in the range of $6.50-$7.75 per square foot of building space. This cost figure is for an optimum level of maintenance and includes all annual costs such as utilities, insurance, and janitorial service, in addition to periodic repairs to the roof, heating system, and other components.

This cost range was obtained from historical DOT/PF and local government information. Mr. Brown noted that it is difficult to arrive at an average maintenance cost, even for similar buildings, because different agencies include different items as M&O costs, and because different levels of maintenance are used. He emphasized that this cost figure should be used only as a general indicator of potential maintenance and operating impacts, and should not be used for specific projects or in preparing agency budgets.

As noted earlier, M&O costs can vary considerably, even for the same location, depending on type of facility, design, and less-than-optimum maintenance levels. For example, a corrections facility would be much more expensive to maintain than an office facility, because of its full-time occupancy and security requirements. On the other hand, a maintenance shop or storage facility would have lower M&O costs. An older facility will usually have a higher M&O cost per square foot than a new building. Also, it is important to recognize the effect of inflation on future M&O costs. With 10 percent inflation, the total M&O costs over the 30 year life of a building can be over 12 times the original construction cost of the structure.

* * * * *

I hope that this information is useful, and regret that we were not able to provide a more comprehensive response under the time constraints of our current workload. Should you have any questions or need additional research, please do not hesitate to contact us.

JK/sj

Attachments

ATTACHMENT 1

Source: DOT/PF

SUMMARY OF AVERAGE TOTAL MAINTENANCE COST/LANE MILE/YEAR

Including Overhead Costs

Roadway Type	Typical Surface Width	INTERIOR			SOUTHCENTRAL			SOUTHEASTERN			WESTERN			CENTRAL		
		Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total
I	48	18,936	5,870	*24,806	0	0	0	7,760	2,406	10,166	0	0	0	2,928	908	3,836
II	48	4,775	1,480	6,255	0	0	0	4,663	1,446	6,109	0	0	0	2,752	853	3,605
III	24	9,381	2,908	12,289	0	0	0	5,978	1,853	7,831	0	0	0	4,771	1,479	6,250
IV	24	3,383	1,049	4,432	6,671	2,068	8,739	3,638	1,128	4,766	11,764	3,647	15,411	3,198	991	4,189
V	24	2,955	916	3,871	5,683	1,762	7,445	4,624	1,433	6,057	1,592	494	2,086	2,890	896	3,786
VI	32	2,233	692	2,925	1,791	555	2,346	4,344	1,347	5,691	2,074	643	2,717	2,887	895	3,782
VII	18	3,026	938	3,964	3,101	961	4,062	6,125	1,899	8,024	2,811	871	3,682	3,216	997	4,213
VIII	24	1,895	587	2,482	2,201	682	2,883	6,494	2,013	8,507	879	272	1,151	2,611	809	3,420

It has been noted that the $24,806 cost/lane mile shown for Type I roadways located in the Interior Maintenance Region, also described as Area II, can be attributed to the high maintenance costs associated with chain link fencing which existed as a traffic separator on portions of Route 170000 (Parks Highway), during the time period associated with costs shown in this report. The chain link fencing has been replaced with concrete traffic separators which should contribute to reduced future maintenance costs.

ATTACHMENT 2 -- AIRPORTS

TOTAL AVERAGE MAINTENANCE COSTS AND OVERHEAD COSTS

		AREA I[1]	AREA II[2]	AREA III[3]
Regional Center	Maintenance	$301,608	$276,795	$313,092
	Overhead	68,767	87,744	66,062
	Total	$370,375	$364,539	$379,154
Regional	Maintenance	203,384	110,646	153,012
	Overhead	46,372	35,075	32,286
	Total	$249,756	$145,721	$185,298
Transport	Maintenance	60,364	--	22,293
	Overhead	13,763	--	4,704
	Total	$ 74,127	--	$ 26,997
Community	Maintenance	11,403	17,065	5,452
	Overhead	2,600	5,410	1,150
	Total	$ 14,003	$ 22,475	$ 6,602

1. Overhead calculated at 22.8% of maintenance.

2. Overhead calculated at 31.7% of maintenance.

3. Overhead calculated at 21.1% of maintenance.

Source: DOT/PF