

**HB**

**325**

*(File 1)*

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: January 16, 1998

FURTHER REFERRALS:

Date of Committee Action: 4/18/98

The FINANCE Committee considered:

HB 325

HOUSE BILL NO. 325

APPROPRIATIONS: OPERATING BUDGET

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

recommends it be replaced with the following committee substitute CSHB 325 (FIN)  the same title  a new title

additional referral to \_\_\_\_\_ Committee  
 attached amendment(s)

ADOPTS: \_\_\_\_\_ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) \_\_\_\_\_ APPROVES PREVIOUS: (Dept/Date) \_\_\_\_\_  
 fiscal note(s) \_\_\_\_\_  fiscal note(s) \_\_\_\_\_  
 zero fiscal note(s) \_\_\_\_\_  zero fiscal note(s) \_\_\_\_\_

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Therriault</i>	Therriault	X			
<i>Mark Hanley</i>	Hanley	X			
<i>Larry Martin</i>	Martin	X			
<i>Glen Mulder</i>	Mulder	X			
<i>Richard E. Moses</i>	Moses			X	
<i>Walter Kelly</i>	Kelly	✓			
<i>G. Davis</i>	G. Davis	✓			
<i>Walter Foster</i>	Foster	X			
<i>Walter J. Davies</i>	Walter J. Davies				T
<i>Walter Kohring</i>	Kohring				X
<i>Barthelme G. Gussendorf</i>	Gussendorf				X

CHAIR'S SIGNATURE

*Gene Therriault* *Mark Hanley*

# State of Alaska

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*Tony Knowles, Governor*

*Office of Management and Budget*

*PO Box 110020*

*Juneau AK 99811-0020*

*(907) 465-4660, fax 465-3008*

To: Annalee McConnell  
Director

Date: February 4, 1998

From: Brad Pierce  
Senior Policy Analyst

Subject: Operations and  
Maintenance Costs of  
State Buildings and  
Infrastructure

Attached is an estimate developed for the Long Range Financial Planning Commission in 1995 of what should be spent for adequate operations and maintenance of Alaska's public infrastructure.

The estimate for publicly-owned buildings uses formulas developed by national facility maintenance experts based on a percentage of the building's replacement value.

I'd like to stress that these are only estimates based on 1995 data.

## Operations and Maintenance Costs of Alaska's Public Infrastructure

### Public Buildings

Operations costs are fixed costs associated with the day to day operation of a public facility. Personnel costs, utilities, janitorial, grounds maintenance and risk management fees are basic costs of operations and are funded as such in each agency's budget. Operational expenses generally take precedence over other expenses. Maintenance and repair and renewal and replacement costs are just as tangible in the life cycle of public buildings but are often not adequately funded.

#### Routine Maintenance and Repair

- Routine maintenance is the day-to-day scheduled and preventative maintenance required to keep buildings operational and in a continual state of readiness. Minor repair is also included in this category.
- Routine maintenance costs for Alaska's public buildings is estimated at \$35 million per year.
- The average age of Alaska's public buildings is 23 years old; many of the facilities built during the 80s boom years are now reaching the expensive stage of their useful life.

#### Renewal and Replacement

- Renewal and replacement covers the scheduled replacement of worn out major building components and the retrofitting or replacement of obsolete or inefficient building systems. Upgrading to current codes is also included in this category. Renewal and replacement funding maintains and in some instances extends the useful life of facilities.
- Renewal and replacement costs for Alaska's public buildings is estimated at \$29 million.

#### Deferred Maintenance

- Institutions do not normally program for deferred maintenance but it becomes a fact of life when annual resources are not sufficient to complete the work required to keep facilities in optimal condition.
- Over the long term, it is much less costly to maintain facilities than to let them deteriorate to the point where it is not cost effective to keep them operational and new construction is required. Thus deferred maintenance is a real measure of the cost of neglect.
- The annual cost of maintenance for state facilities is projected to be \$64 million, while the deferred maintenance backlog is estimated at \$251 million. (See Table .)

## Facilities Maintenance Model

Agency	No. of Bldgs.	Square Feet	Average Age	Replacement Value	(1) Maintenance & Repair	(2) Renewal & Replacement	Required O &M, Repair & Replace Budget	Deferred Maintenance Backlog	Percent of Replacement Value
Courts	11	64,087	19.5	102,285,829	1,534,287	1,173,279	2,707,566	1,755,300	1.7%
DCED	12	16,970	11.8	3,108,015	46,620	21,573	68,194	0	0.0%
AUFG	304	518,785	24.1	104,183,442	1,562,752	1,476,954	3,039,705	3,702,000	3.6%
DHSS	36	538,779	16.0	203,939,469	3,059,092	1,919,430	4,978,522	13,552,500	6.6%
DMVA	82	593,598	23.6	82,994,492	1,244,992	1,152,228	2,397,221	2,905,952	3.5%
DNR	151	288,938	22.8	23,627,196	354,408	316,882	671,290	2,960,100	12.5%
DOA	12	492,327	21.2	118,580,047	1,778,701	1,478,763	3,257,464	9,838,300	8.3%
DOC	82	1,034,379	17.0	320,740,575	4,811,109	3,207,406	8,018,514	12,365,000	3.9%
DOE	28	380,909	33.5	63,626,885	954,403	1,253,824	2,208,227	4,500,000	7.1%
DOT/PF	651	2,461,945	21.6	357,181,516	5,357,723	4,538,306	9,896,029	44,281,000	12.4%
DPS	62	270,259	19.9	76,102,155	1,141,532	890,843	2,032,375	1,199,900	1.6%
Legislature	2	118,540	46.0	32,815,230	492,228	887,942	1,380,170	385,000	1.2%
University	372	4,860,691	21.8	847,542,799	12,713,142	10,868,490	23,581,632	153,923,585	18.2%
<b>Total</b>	<b>1,805</b>	<b>11,640,207</b>	<b>23.0</b>	<b>\$2,336,732,650</b>	<b>\$35,050,990</b>	<b>\$29,185,920</b>	<b>\$64,236,909</b>	<b>\$251,368,637</b>	<b>10.8%</b>

Notes: (1) Association of Physical Plant Administrators Formula =  $0.015 * \text{Replacement Value}$ .

(2) Modified Sherman - Dergis Formula =  $0.75 * \text{Replacement Value} * \text{Age} / 1,275$ .

Source: "Alaska's State Owned Buildings: An Inventory and Assessment," U of A Statewide Facilities Office, February 1995.

**Alaska's Transportation Network: Highways, Airports, Harbors and Ferries**

**DOTPF Estimated Maintenance Needs**  
(\$ thousands)

	<b>Highways</b>	<b>Aviation</b>	<b>Harbors</b>	<b>Total</b>
Current M & O Funding	57,000	16,200	100	73,300
Additional Annual M & O Needed to Properly Maintain the System	16,000	4,500	4,000	24,500
Total Annual M & O Needed	73,000	20,700	4,100	97,800
Capital Infusion Needed to Eliminate Deferred Maintenance Backlog	30,000	12,000	30,000	72,000

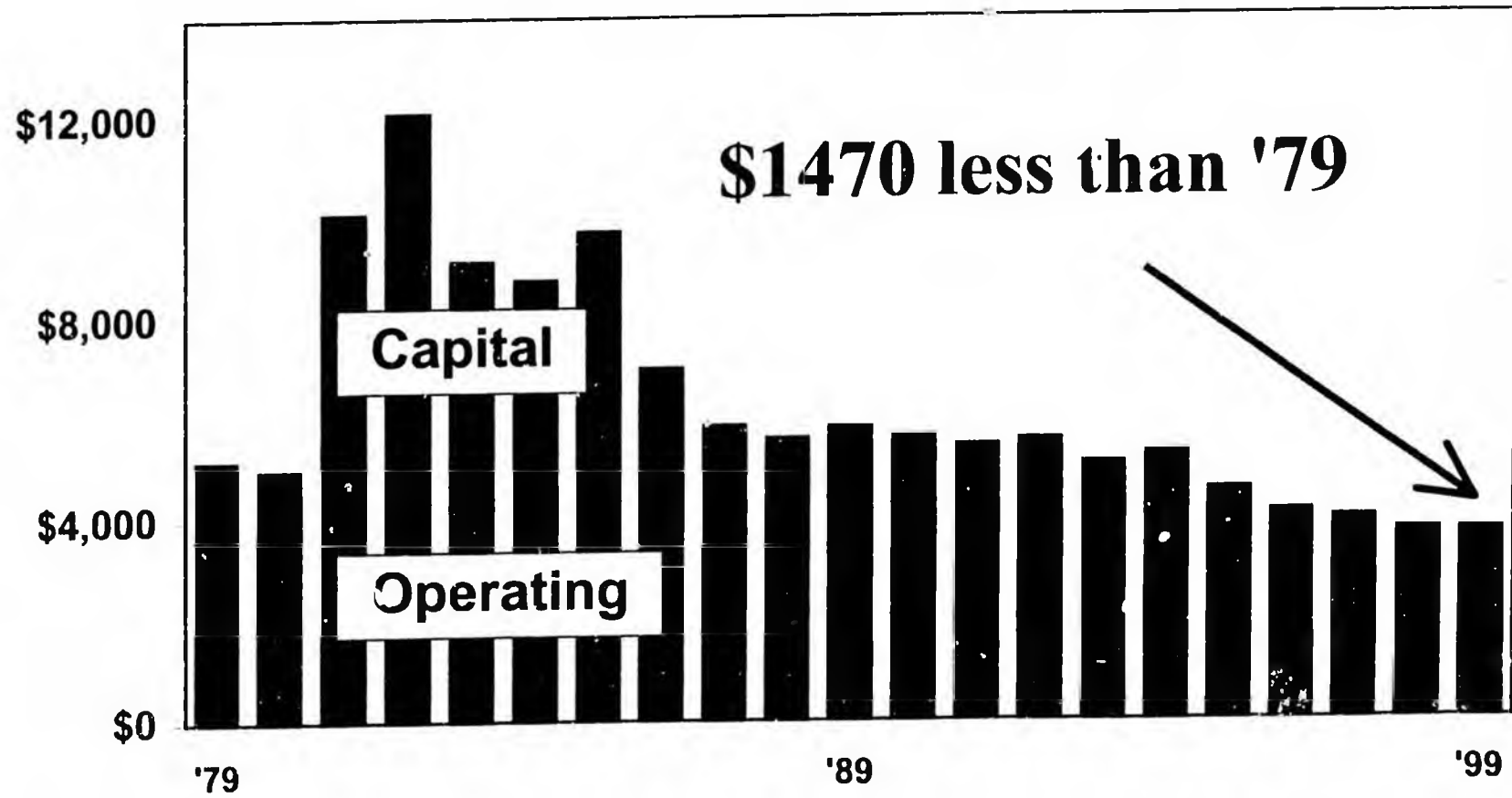
Deterioration of the state's transportation network due to underfunding of annual maintenance is a significant cost to the economy. Standard engineering estimates provide the basis for the table above. These estimates are for facilities maintained by the state only – municipalities are responsible for maintenance of some of the road system and several harbors, while the international airports have their own program receipts funding.

- Alaska is a growing state with massive infrastructure needs. The fundamental problem is to strike a sustainable balance in our capital and maintenance spending that allows for upkeep of existing infrastructure while continuing to build to support a growing economy.
- Experience has shown that when maintenance of public infrastructure is neglected for a period of years, political pressure builds and the result is likely to be a very large capital spending spree when revenues become available as was the case in FY 94 when \$704 million in state general funds was spent on capital projects, much of it to address deferred maintenance issues.

## Projection with Gov. Knowles' FY99 Initiatives and January Oil Price Forecast for FY99

<b>General Fund Budget Projections</b>	Fiscal Year				
	1998	1999	2000	2001	2002
All dollars in millions except oil prices.					
Average Oil Price (\$/bbl.)	\$16.48	\$17.28	\$18.34	\$18.93	\$19.50
Oil Production (MMbbl/day)	1.32	1.31	1.36	1.35	1.33
Assuming \$15/bbl. for rest of FY98		January Update	Fall Revenue Sources Book		
<b>Available Revenues: Department of Revenue</b>					
1 General Fund Net Disposable Unrestricted Revenue	2,004.4	1,901.0	1,962.6	1,965.7	1,946.4
2 Constitutional Budget Reserve Fund (CBRF) Earnings (requires 3/4 vote of legislature)	285.0	237.4	237.7	239.5	232.8
3 General Fund Surplus Carryforward and ILTF	75.0				
<b>4 Total General Fund Revenues and CBRF Earnings</b>	<b>2,364.4</b>	<b>2,138.4</b>	<b>2,200.3</b>	<b>2,205.2</b>	<b>2,179.2</b>
<b>Expenditures: Office of Management and Budget 1/06</b>					
5 Operating - Agency budgets including supplementals.	1,099.2	1,129.0	1,129.0	1,129.0	1,129.0
6 K-12 Education (FY 99 with Gov's. Quality Education initiative, then with enrollment @ 1.5% plus 1% statutory increase)	670.1	710.3	728.1	746.3	764.9
7 Other Formula - Longevity Bonus, Medicaid, Temporary Assistance to Needy Families, Power Cost Equalization, etc. After FY99, growth at 0.5%.	413.6	389.1	391.0	393.0	395.0
8 Existing General Obligation Debt	5.9	3.0	2.4		
9 Existing School Debt Reimbursement (Schools backlog funded entirely with tobacco tax revenues.)	56.1	44.8	54.7	42.7	31.0
10 Existing Lease Financing	10.3	16.3	16.5	16.7	16.2
11 Capital Budget	91.7	92.3	92.3	92.3	92.3
12 Loans and Fund Transfers	22.3	22.2	17.3	17.3	17.3
<b>13 Total General Fund Expenditures</b>	<b>2,369.2</b>	<b>2,407.0</b>	<b>2,431.3</b>	<b>2,437.3</b>	<b>2,445.7</b>
<b>14 (Projected Draw on CBRF Principal)/Earnings Surplus</b>	<b>(4.8)</b>	<b>(268.6)</b>	<b>(231.0)</b>	<b>(232.1)</b>	<b>(266.5)</b>
<b>Constitutional Budget Reserve Fund</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
15 CBRF Balance - at Start of Fiscal Year	3,171.7	3,180.5	3,185.1	3,227.3	3,233.4
16 Income at 7.16% (Jan. Department of Revenue Cash Flow Update)	285.0	237.4	237.7	239.5	232.8
17 Oil & Gas Tax Dispute Resolutions	10.4	270.0	270.0	235.0	35.0
18 Miscellaneous Transfers	3.2	3.2	3.2	3.2	(0.5)
19 Draw from Income for Annual Budget	(285.0)	(237.4)	(237.7)	(239.5)	(232.8)
20 Draw from Principal for Annual Budget	(4.8)	(268.6)	(231.0)	(232.1)	(266.5)
<b>21 CBRF Balance - at End of Fiscal Year</b>	<b>3,180.5</b>	<b>3,185.1</b>	<b>3,227.3</b>	<b>3,233.4</b>	<b>3,001.4</b>
<b>Permanent Fund</b>					
	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
22 Earnings Reserve Account - at End of FY	377	357	331	372	509
<b>23 Permanent Fund Balance - at End of FY (market)</b>	<b>23,387</b>	<b>24,651</b>	<b>25,991</b>	<b>27,486</b>	<b>29,161</b>

# *State Spending per Alaskan Declines in Today's Dollars*



## *\$338 Million of Inflation and Population Increases Absorbed Since FY95*

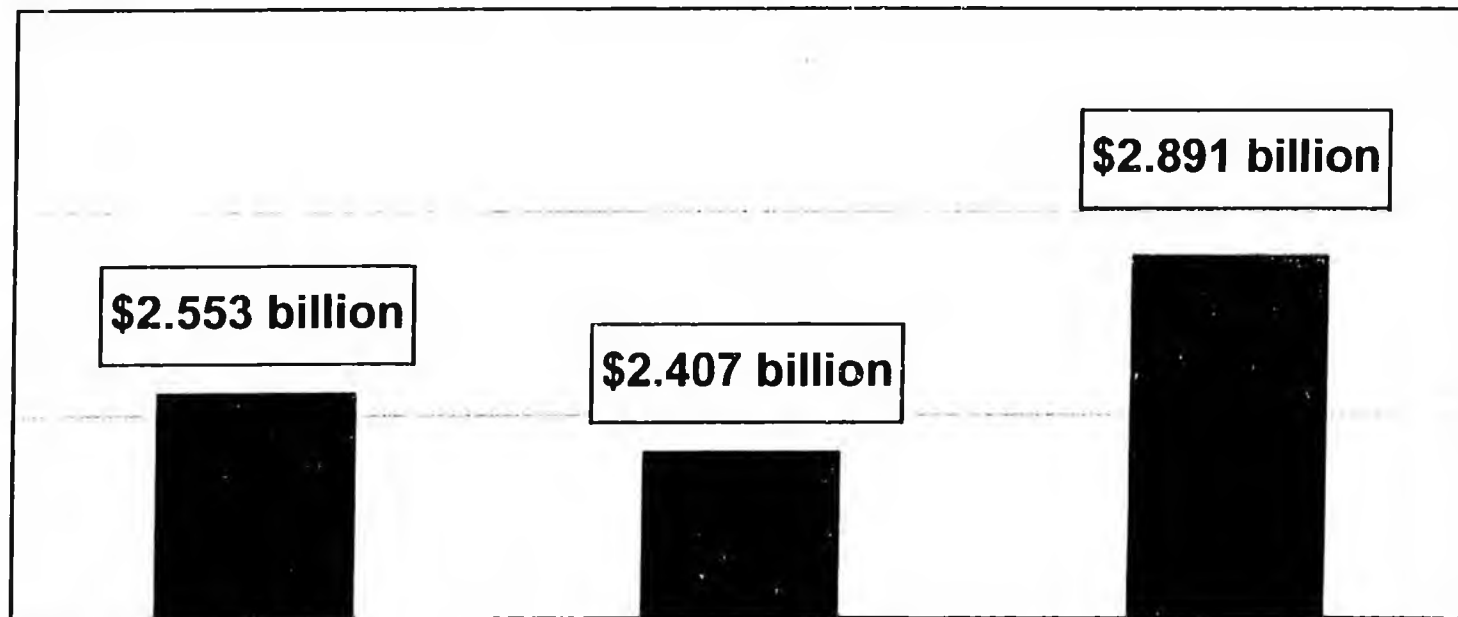
Billions

\$3.5

\$3.0

\$2.5

\$2.0



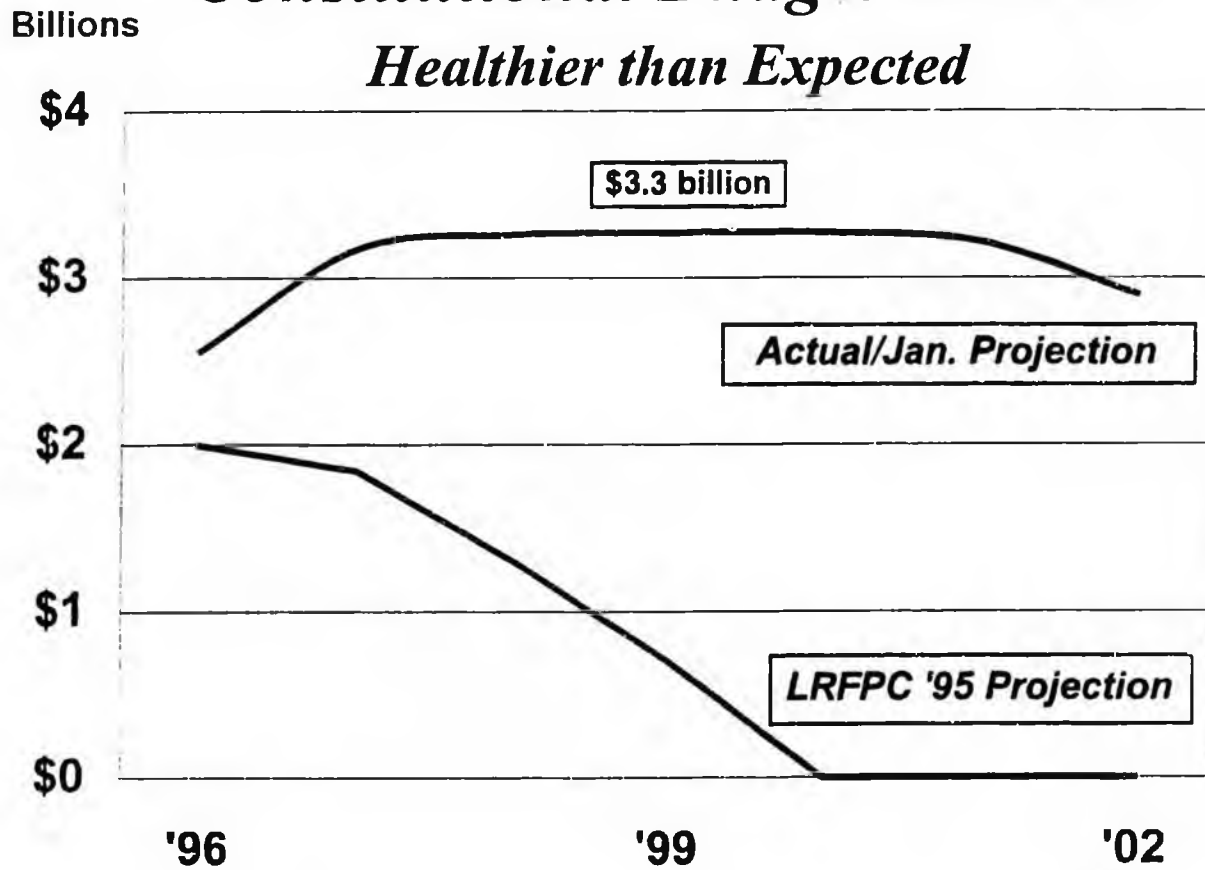
**Final FY95 General  
Fund Budget**

**Gov's FY99 General  
Fund Budget**

**FY99 If Adjusted for  
CPI and Population  
Since FY95**

# Constitutional Budget Reserve

## Healthier than Expected



# Constitutional Budget Reserve

## Projected vs. Actual Draws

	Draw Projected When <u>Legislature Passed Budget</u>	Actual CBR Draws and Jan. '98 Projection
FY95	\$513 million	\$22 million
FY96	379	285
FY97	409	(70) Surplus
<u>FY98</u>	<u>305</u>	<u>212</u> Jan. update
<b>4 yr total</b>	<b>\$1606 million</b>	<b>\$449 million</b>
FY99 Gov	506	??

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110400  
JUNEAU, ALASKA 99811-0400  
TELEPHONE: (907) 465-2300  
FACSIMILE: (907) 465-2389

October 31, 1997

The Honorable Tony Knowles  
Governor of Alaska  
P.O. Box 110001  
Juneau, Alaska 99811-0001

Dear Governor Knowles:

Though it's not exclusively glad tidings, our Fall 1997 Revenue Sources Book offers much to enjoy. I am happy to report that in FY 1997 we collected nearly \$2.5 billion in net disposable general fund unrestricted revenues. This was the best year for state revenues since 1991. Higher revenues were the direct result of Alaska North Slope oil averaging \$20.85/bbl.

However, we project lower revenues in FY 1998 and FY 1999 because of declining North Slope production and oil prices that are expected to average just over \$18/bbl. We expect net disposable general fund unrestricted revenues of \$2.124 billion in FY 1998 and \$1.9876 billion in FY 1999.

ANS production declined to an average of 1.405 million barrels/day in FY 1997 and we expect it to drop to 1.325 million barrels/day in FY 1998, then to 1.310 million barrels/day in FY 1999.

Returning to the good news, we forecast an increase in production in FY 2000 to 1.355 million barrels/day as the result of new fields currently under development. We expect production to remain at about that level through FY 2001 before beginning to decline again.

Even with the short-term oil-patch renaissance, we still expect state oil revenues to decline over the long term since the new fields qualify as economically marginal and therefore will not pay the same higher taxes as our larger yet diminishing fields. We are also faced with somewhat higher transportation costs to market our oil production as the existing ANS tanker fleet is refitted or replaced with double-hull tankers.

The Revenue Sources Book projects state revenues from FY 1998 through FY 2020.

Though oil revenues will decline over time, Alaska's total revenue picture, which we have developed with the Office of Management and Budget, continues to look very good. Our Revenue Sources Book projects the Constitutional Budget Reserve Fund will hold \$3.6 billion by year-end FY 1999 and the Permanent Fund will reach a market value of \$23.5 billion.

Sincerely,

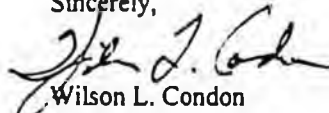
  
Wilson L. Condon  
Commissioner

Figure 10.

**GENERAL FUND UNRESTRICTED REVENUE, Nominal Dollars  
Actual (FY 1982-1997) and Projected (FY 1998-2020)**

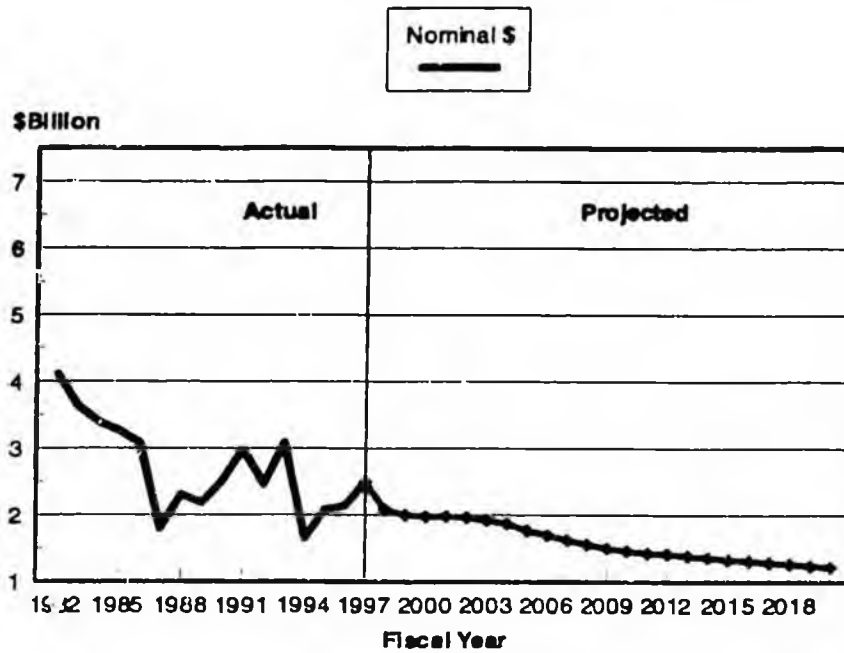


Figure 11.

**GENERAL FUND UNRESTRICTED REVENUE, Real 1997 Dollars  
Actual (FY 1982-1997) and Projected (FY 1998-2020)**

