

**HB**

**463**

**HFIN**

**FILE**

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: March 19, 1998

FURTHER REFERRALS:

Date of Committee Action: 5/2/98

The FINANCE Committee considered:

HB 463

HOUSE BILL NO. 463

ESTABLISH ALASKA PUBLIC BUILDING FUND

"An Act establishing the Alaska public building fund; and providing for an effective date."

recommends it be replaced [ ] the same title  
 with the following committee substitute \_\_\_\_\_ [ ] 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) \_\_\_\_\_

[X] zero fiscal note(s) Gov's, 3/19/98

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Gene Theriault</i> Theriault			X	
<i>John Kelly</i> Kelly			X	
<i>Mike Kohnring</i> Kohnring			X	
<i>Bob Davis</i> DAVIS	X			
<i>Ed Moses</i> Moses	X			
<i>John Crispendorf</i> Crispendorf	X			

CHAIR'S SIGNATURE *Gene Theriault*

# FISCAL NOTE

Bill Version: HB 463

(H) Publish Date: 3/19/98

**STATE OF ALASKA  
1998 LEGISLATIVE SESSION**

Revision Date (Note if correction) \_\_\_\_\_ Dept. Affected All departments  
 Title An Act establishing the Alaska public building fund. BRU \_\_\_\_\_  
 Component \_\_\_\_\_  
 Sponsor House State Affairs Committee  
 Requester House State Affairs Committee Component Serial No. \_\_\_\_\_

**Expenditures/Revenues (Thousands of Dollars)**

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY98) cost: \_\_\_\_\_

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill would establish a fund for the deposit of state facility rent payments, and for appropriations from the fund for maintaining these facilities.

Establishing the fund would not in itself have a direct fiscal impact on any state agency. However, the purpose of the fund and the related facilities rent structure is to improve the management and maintenance of state facilities. Improved management and maintenance will reduce overall facilities costs over the long term. Although these cost reductions may be substantial, there are many variables involved and the cost reductions cannot be accurately projected at this time.

Prepared by Jack Kreinheder *Jack Kreinheder* Phone 465-4676  
 Division Office of Management and Budget Date 3/18/98  
 Approved by Commissioner Jim Ayers, Chief of Staff *Jim Ayers* Date \_\_\_\_\_  
 Agency Office of the Governor

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# STATE OF ALASKA

## OFFICE OF THE GOVERNOR

OFFICE OF MANAGEMENT AND BUDGET

TONY KNOWLES, GOVERNOR

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April 30, 1998

The Honorable Gene Therriault  
Alaska State House of Representatives  
State Capitol, Rm 511  
Juneau, AK 99801-1182

Dear Representative Therriault:

Thank you for discussing with me the scheduling of HB 463, establishing the Alaska Public Building Fund. I would like to respond to some of the issues you raised in our discussion.

With regard to the potential risk of the Public Building Fund being "raided" by future legislators, while we can't completely preclude such a possibility, I think it is unlikely. As far as we know, the only time an internal service fund was tapped in this way was when the State Equipment Fleet fund was tapped by the legislature during the mid-80's oil price crash; however, that was before the Constitutional Budget reserve fund was established to deal with such price declines.

Today we are again facing a similar oil revenue shortfall, but because we have the CBR to cushion the shortfall, we are not aware of any discussion of using any internal service funds like the State Equipment Fleet fund or the information systems fund to offset the revenue shortfall.

I also want to emphasize that HB 463 would not involve any changes to the FY 99 budget. The facilities rent structure would be incorporated in the FY 2000 budget. We would like to establish the Public Building Fund now, since we will be starting work on the FY 2000 budget soon, and the Building Fund would be an important part of incorporating facilities rent into the budget process.

One of the important benefits of a facilities rent structure and the Public Building Fund would be that the state could charge rent to the federal government and other non-general fund sources. These collections could then be used to improve facilities maintenance. While it is too early to make a specific projection of these additional revenues, we believe that the amount will be significant in our efforts to avoid future deferred maintenance.

I would appreciate your scheduling of HB 463 as soon as possible. If you have other questions, please call me or Jack Kreinheder. Thank you.

Sincerely,



Annalee McConnell  
Director

# Alaska State Legislature

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## Sponsor Statement

**HB 463**

### **Establishing the Alaska Public Building Fund**

This bill would create the Alaska Public Building Fund. The fund would be used for the deposit of rent payments for state facilities, and for appropriating for maintaining these facilities.

This fund is an essential part of a rental structure for state facilities. Establishing the fund will allow money to be accumulated to pay for long-term facilities renewal and renovation costs that now are not adequately funded. This will in turn help avoid the future accumulation of hundreds of millions of dollars of deferred maintenance, as has occurred in the past. The legislature's Deferred Maintenance Task Force recognized that in addition to dealing with our current deferred maintenance needs, we must take action to avoid repeating the problem in the future.

The Alaska Public Building Fund is an important step in improving the management and maintenance of state facilities, and in avoiding future deferred maintenance problems.

## STATE FACILITY RENTS PROCESS DESCRIPTION

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### **The Elements of Rent**

- **Maintenance & Operations**  
The costs of utilities, janitorial, repairs and other costs associated with keeping a facility ready for the use of its occupants.
- **Renewal & Replacement (Depreciation)**  
The scheduled replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility.
- **The cost of an administrative organization**  
Resources to pay bills, account for and budget the costs of the maintenance effort, manage and report on the work.

### **Rent Implementation**

- **Create and Internal Service Fund**  
An Internal Service Fund (ISF) would be created in law to receive and expend the agencies rent payments.
- **Transfer GF Facility Cost**  
The General Funds currently budgeted to pay for facility costs would be transferred to the occupant agencies for their use in paying rent.
- **Leverage Non-GF Funds**  
Adjust agency budgets to maximize non-GF participation in rent payments.

### **Rent Process**

- **Agencies Make Rent Payments**  
Agencies would pay the ISF for services.
- **ISF Spends and Accounts for Facility Expenditures**  
All facility expenditures would be made from the ISF based on legislative appropriations from the fund.
- **Rate Setting**  
Rates would be set in accordance with a "rent methodology" approved by the appropriate federal agencies to insure federal reimbursement. ISF would "true-up" costs at year end and adjust future rates up or down based on desired service levels.

### **First Year Assumptions**

- Start with a limited number of facilities, priority is multi-agency office buildings.
- DOA provides administrative oversight of ISF and contracts with DOT&PF for facility services.

## Year 2000 Facility Rent

Draft -- 4/9/98

**RENT METHODOLOGY****General Principles**

Rent is used to improve the consumption and provision of resources by providing linkages between the behavior of users and costs of facilities and related services they utilize and encouraging users to hold the facilities management organization accountable for the quality and costs (the value) of the services provided.

The rental structure will comply with generally accepted accounting principles (GAAP) as recognized by the Governmental Accounting Standards Board (GASB), and Federal cost principles as set forth in U.S. Office of Management and Budget Circular A-87.

**Rates will:**

- provide for operation on a break-even basis;
- include the full cost of providing service, including all applicable direct and indirect costs and depreciation;
- only recover OMB A-87 allowable costs during a one-year period;
- provide that all tenants are billed at the same rate for similar services;
- produce billings that appropriately represent or measure services provided or benefits received;
- insure that resources generated by one service are not used improperly for another.

**The Cost Elements of Rent****Maintenance & Operations**

The costs of utilities, janitorial, repairs and other costs associated with keeping a facility ready for the use of its occupants.

**Renewal & Replacement (Depreciation)**

The scheduled replacement of worn-out major building components and the replacement or retrofitting of obsolete or inefficient building systems in order to maintain or extend the life of a building or facility.

**The cost of an administrative organization**

Resources to pay bills, account for and budget the costs of the maintenance effort, manage and report on the work.

**STEPS TO IMPLEMENTATION****Designate facilities in the rental pool**

For the year 2000 budget the following criteria are considered relevant in the selection of facilities for the first phase of rent implementation:

- multi-agency office facilities;
- maximize potential for non-gf rent payment;
- limit number of sites to minimize accounting and data collection;
- larger facilities, such as over 20,000 sq. ft.

## Year 2000 Facility Rent

Draft – 4/9/98

### Identify occupancy by agency

Rent will be based on "useable" square feet occupied by the tenant agency. Within a given facility, common or public areas including corridors, stairways, toilet rooms, shared conference facilities, etc. will be allocated to all of the tenants of that facility based on the proportion of the total occupied areas within the facility.

### Identify current indirect costs

Current direct costs (utilities, janitorial, repairs, etc.) are well identified in the accounting system. Indirect costs of administrative support (accounts payable, human resource, etc.) currently provide services to many functions. A methodology for properly allocating current costs of administrative support and other indirect costs is needed. These costs are most appropriately allocated based on the number of transactions.

### Transfer proportionate share of current costs to tenant agencies

Current general funds expended on the rental pool facilities (principally in the DOT&PF facilities budget) would be transferred in the budget to the tenant agencies based on their proportionate occupancy of each facility.

## POSSIBLE FIRST PHASE FACILITIES

The listed criteria lead to the following possible initial rental pool and tenant agencies:

	Bank of America Center	Feribanks Regional Office Bldg	Juneau State Office Building	Juneau AOB	Court Plaza Building	Douglas Island Building	Community Building	Juneau DPS HQ	Kenai Office Building
Governor									
Administration									
Law									
Revenue									
Education									
Health & Soc Serv									
Labor									
Commerce									
Military & Vet Aff									
Natural Resources									
Fish & Game									
Public Safety									
Environmental Cons									
Corrections									
Comm & Reg Aff									
DOT									
Legislature									
Courts									