

HB

216

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. HB 216

Revision Date: _____ Dept. Affected: EDUCATION
 Title: Education Facilities Financing Authority BRU: School Finance
 Component: Educational Facilities Support
 Sponsor: KOTT, Green
 Requester: House Health, Education & Social Services COMPONENT SERIAL NO. 1957

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES	138.5	138.5	138.5	138.5	138.5	138.5
TRAVEL	10.0	10.0	10.0	10.0	10.0	10.0
CONTRACTUAL	400.0	400.0	400.0	400.0	400.0	400.0
SUPPLIES	4.0	4.0	4.0	4.0	4.0	4.0
EQUIPMENT	9.0	3.0	3.0	3.0	3.0	3.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	561.5	555.5	555.5	555.5	555.5	555.5

CAPITAL EXPENDITURES						
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CHANGES IN REVENUES						
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	561.5					
1005 GF Program Receipts						
Other: 1022 Corp Receipts		555.5	555.5	555.5	555.5	555.5
TOTAL	561.5	555.5	555.5	555.5	555.5	555.5

Estimate of current year (FY97) cost: \$

POSITIONS:

FULL-TIME	2.0					
PART-TIME						
TEMPORAL						

ANALYSIS: (Attach a separate page if necessary)

The bill establishes the Education Facilities Financing Authority in the Dept. of Education. This funding would provide for an Executive Director, R28A, and a Secretary I, R10A, to manage the authority along with professional services for a financial advisor, bond counsel, trustee payee agent, custodial bank, investment management and auditing/accounting services. In the first year, general funds would be necessary to fund the operation of the authority and in future years, bond proceeds would pay for operation of the authority.

Prepared by: Karon J. Rehfeld, Director Phone: 465-8650
 Division: Education Support Services Date: 4/30/97
 Approved by Commissioner: Shirley J. Holloway, Ph.D. Date: 4/30/97
 Agency: Department of Education

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STATE OF ALASKA
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BILL ANALYSIS

Department EDUCATION	Division ESS	Bill Type HB	Bill Number 216	Sponsor KOTT, GREEN
Short Title of Bill Education Facilities Financing Authority				
Departmental Position				
Prepared By M. Morgan <i>[Signature]</i>	Date 4/28/97	Commissioner's Signature	Date	
SUMMARY				
Other Agencies Affected by Bill CRA, HESS, Finance		Constituent Groups Affected by Bill		
Organizational Support For Bill		Organizational Opposition to Bill		
Fiscal Impact <input type="checkbox"/> None <input checked="" type="checkbox"/> Fiscal Analysis Attached				
Background/Legislative Intent Analysis of Bill/Program Effects.				
Analysis of Bill/Program Effects				
Amendments Proposed				

Please attach a separate sheet for additional comments or analysis

Additional Comments or Analysis

(continued from page 1)

Generally, this is a positive bill in that it directly addresses the need to establish a stable, long-term source of funding for education capital projects. There are several concerns the Department of Education should have about this bill. First, as it is currently written, it does not appear to clearly cover the state-wide needs of education. While the bill, in Section 6, appears to address projects across the state, the mechanism to fund projects for a school district which is not a municipality is not clearly delineated. The base requirement is set out in 44.27.140(b)(1) and specifies "...a municipality that is a school district..." This is as close as this act gets to defining a municipality. However, even if school districts were considered municipalities, without the ability to generate revenues through taxes, they wouldn't be able to meet the 30% local contribution requirement (44.27.140(b)(1)). Also the distinction between projects fully funded and partially funded through bonding is not clear. Another concern is the role/interplay of the University in funding. Given that the ability to bond is based entirely on either general fund appropriations or revenues earned by the fund, there is a definite limit to what can be funded. While the Department has a process for ranking projects, there is currently no mechanism for integrating University projects. The scope of University projects which may be funded is also indistinct. Reading 44.27.140, payments may be made "...to pay the cost of constructing university facilities." It may be important to clarify if maintenance projects are allowed.

Regarding the Department's ranking process, the bill references AS 14.11.015 regarding approval of DOE projects, but the list of projects attached includes projects which are NOT approvable. This puts the Department in the position of administering projects authorized under two conflicting standards. Also, if total needs of education are being considered, AVTEC and Mt. Edgecumbe should be included.

The bottom line is this bill has good potential if the above concerns are addressed. It's strongest point is that it address the need for a long-term solution.

Alaska State Legislature House of Representatives

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Legislative Council
International Trade & Tourism
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Interim:
10928 Eagle River Rd. Suite 141
Eagle River, AK 99577

Session:
Alaska State Capitol
Juneau, AK 99801

SPONSOR STATEMENT HB 215 AND HB 216

Alaska's education system currently suffers from obsolete, inadequate, and poorly maintained facilities. This problem is of long-standing duration, and in many places it has reached serious proportions. We simply have to do something to provide reasonable and safe places to house our students. HB 215 and HB 216 do just that.

HB 216 would establish the Education Facilities Finance Authority (EFFA) within the Department of Education, and the Education Facilities Fund (EFF) as an asset of the Authority. The EFFA would:

- a. Sell EFFA bonds to directly finance construction of schools upon approval of specific projects by the Legislature.
- b. Contract to pay up to 70% of net debt service on municipal bonds issued to finance municipal school facilities and up to 100% of net debt service on University of Alaska bonds, provided that each specific facility has been approved by the Legislature for a specified level of reimbursement.
- c. Apply non-corpus balances of the EFF to debt service on EFFA bonds and to the specified percentage of net debt service under authorized reimbursement agreements for municipal school bonds and university bonds.
- d. Pledge assets of the EFF as security for EFFA bonds and for the EFFA's obligations under authorized reimbursement agreements for municipal school bond and University bond debt service.

The EFF would be managed by the Permanent Fund Corporation and would require no special or unique investment policy by the Permanent Fund. The initial capitalization would be accomplished by HB 215 in the

Representative Pete Kott

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SPONSOR STATEMENTS

form of a \$1.2 billion appropriation from the Constitutional Budget Reserve Fund.

HB 216 contains authorization for several projects. Future legislatures could continue to authorize more bonds and reimbursement agreements within the financial capabilities of the EFF. The EFF would have bonding capacity equal to or exceeding the initial capitalization of \$1.2 billion, without risking the corpus of the fund. Debt service will be from the earnings alone. Indeed, under reasonable projections, earnings will exceed the requirements of debt service.

Once enacted into law, HB 215 and HB 216 will accomplish the following objectives:

- a. Provide funding, within months of becoming law, for critical rural and urban deferred maintenance and school construction projects and University of Alaska capital projects that are almost certainly not going to be funded for several years through normal legislative appropriation.
- b. Resume funding of net debt service for school bonds of organized municipalities under contractual 70:30 reimbursement agreements, and provide for an indefinite continuation of this funding without annual appropriations.
- c. Protect for future use that portion of the Constitutional Budget Reserve suitable for long-term investment, since the corpus of the newly-created Education Facilities Fund could not be drawn. The earnings of the new EFF would be used to cover the cost of the new projects, while the fund would continue to grow.

It is time to get our schoolhouses in order. Accordingly, I commend HB 215 and HB 216 to you and request your support.

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SECTIONAL ANALYSIS HB 216

Section 1. FINDINGS.

- An urgent need exists for improvement in elementary and secondary school & University facilities.
- The Education Facilities Financing Authority (EFFA) provides an effective solution.

Section 2. AMENDS AS 44.27 BY ADDING A NEW ARTICLE 3. PROVIDING FOR THE EFFA.

44.27.100. EDUCATION FACILITIES FINANCING AUTHORITY established:

- Public corporation of the state.
- Within Department of Education.
- Subject to the Executive Budget Act (AS 37.07).

44.27.110. BOARD OF DIRECTORS

- Members:
 - Commissioner of Education
 - Commissioner of Revenue
 - Commissioner of DOTPF
- Directors subject to AS 39.50 (Conflict of Interest).

44.27.120. OFFICERS, QUORUM, AND MEETINGS.

- Standard public corporation bylaws.
- May hire employees deemed advisable.
 - Employees in exempt service

44.27.130. POWERS OF THE AUTHORITY.

- Standard public corporation powers, required for financing.

Representative Pete Kott

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SECTIONAL ANALYSIS



44.27.140. ISSUANCE OF BONDS AND PLEDGES OF ASSETS.

(a) Authorizes the authority to issue bonds for schools if:

- The projects are approved by the state Board of Education under AS 14.11.05(a) -- the "priority list," and;
- The projects are authorized by the Legislature.

(b) Authorizes the authority to agree to and pledge amounts to reimburse municipalities and the University of Alaska a proportion of their net debt service on school bonds, and to pay these amounts directly to bond trustees in the event of municipal default;

- For municipalities:
 - Up to 70% of net debt service
- For the University of Alaska:
 - Up to 100% of net debt service

(c) Establishes further requirements that must be met before the authority may issue bonds for REAA projects, or agree to reimburse debt service on municipal or university projects:

- The Legislature must authorize the project and its cost (*see* Section 6).
- The Legislature must authorize the percentage reimbursement to apply to agreements with municipalities or the university (*see* Section 6).
- The projects must meet energy efficiency standards.

(d) - (h): Specific authorizations required in order to issue bonds and to enter agreements to back (through reimbursement pledges) municipal and university bonds. These authorizations are required to make the bonds saleable.

(d) Allows bonds to be issued to provide funds to refund bonds or pay interest or principal (1), and to fund reserve requirements and issuance costs (2).

(e) Allows the authority to enter financial covenants to secure the reimbursement amounts authorized.

(f) Requires that all bonds are payable out of revenues of the authority.

(g) Requires that bonds be authorized by resolution of the authority, allows them to be in the form, term, interest rates, etc. determined by the authority. Limits bond terms to 15 years.

(h) Allows the authority to disburse funds to municipalities and the university in accordance with pledges and agreements it has lawfully made. Requires the authority to establish by regulation the procedures for reimbursement. Requires the authority to exclude state and federal funds applied to school construction from the reimbursement calculation, and to offset tobacco tax receipts distributed to the municipality.

44.27.150. TRUST INDENTURES AND AGREEMENTS -- Standard language providing for the authority to enter into the trust indentures and agreements that are the foundation documents of all financings, and; providing for the authority to attach the State's moral obligation to its bonds.

(a) Authorizes use of a trustee and entering into trust agreements that pledge assets.

(b) - (f) collectively allow the authority to apply the State's "moral obligation" to its bonds. It does not allow the authority to pledge the faith and credit of the state, nor create a debt or liability of the State. This is the same language that allows other authorities to apply the "moral ob" to their bonds:

(b) Allows use of capital reserve funds to handle bond proceeds.

(c) Requires that, if a capital reserve fund is used for a bond issue, it be fully funded.

(d) Establishes evaluation criteria if securities are purchased with the capital reserve fund.

(e) Requires that the authority certify to the Governor and the Legislature at the beginning of each year what amount, if any, is required to restore any capital reserve funds to full funding, and states that the Legislature "may" appropriate that amount. (This provides the legislature annually with a statement of the amount of school debt service due, and allows them, if they choose, to appropriate all or a portion of that amount. If the amount is shortfunded, the EFFA will pay the balance from Education Facilities Fund earnings.) Specifically states that "nothing in this section creates a debt or liability of the state."

(f) Requires the authority to notify the State Bond Committee and the Legislative Budget and Audit Committee at least 10 days before issuing any moral obligation bonds. Establishes what information must be included in the notification, and requires the authority to annually revise this information.

44.27.160. BONDING LIMITATIONS. Precludes the authority from issuing bonds or agreeing to reimburse debt service unless the Education Facilities Fund contains at least \$1.2 billion. (Once bonds are issued or reimbursement agreements entered, however, these remain effective regardless of the balance of the fund.)

This section makes the activation of the authority contingent upon the appropriation bill.

44.27.170. BOND REIMBURSEMENT LIMITATION Puts the above (44.27.160) limitations on authority agreements to reimburse municipal or university debt service. This precludes the authority from entering any such agreements until the \$1.2 billion appropriation is effective. All agreements the authority lawfully enters after that time remain effective regardless of the fund balance. Requires that municipal and university bonds meet the standards of authority bonds (contained in 44.27.140 9[g]).

44.27.180. NONLIABILITY ON BONDS Establishes (a) that neither the members of the authority nor the executor of the bonds becomes personally liable for their repayment, and; (b) that all bonds are non-recourse bonds to the state and its political subdivisions, payable solely from authority assets. Establishes that the authority may not pledge the faith or credit of the State or of another political subdivision of the State.

44.27.190. PLEDGE OF THE STATE. The standard pledge of the state not to change the rules in midstream. The State pledges that it will not interfere (through future legislation) with the rights of the authority to fulfill terms of contracts it enters into lawfully, and allows the authority to include this pledge in its bonds.

44.27.200. EDUCATION FACILITIES FUND Establishes the fund which will be used to back authority bonds and reimbursement agreements, and provides for its management by the Permanent Fund Corporation.

- Fund consists of:
 - Appropriations to the Fund(*The initial appropriation to the fund is contained in an accompanying appropriation bill.*)
 - Income of the fund
- Authority may pledge:
 - Fund income
 - Amounts that exceed \$1.2 billion (the initial deposit).
- The fund shall be invested by the Permanent Fund Corporation under rules for Permanent Fund assets. (AS 37.13.120).

44.27.210. ANNUAL AUDIT. Requires an annual audit by a CPA in a form prescribed by the Legislative Auditor, and requires that the Legislative Auditor have full access to authority records.

44.27.220. ANNUAL REPORT. Requires an annual report.

44.27.250. DEFINITIONS.

Section 3. Conforming language to establish that authority contracts are the 38th type of contract exempt from AS 36.30.850 (Public Contracts) of the procurement code.

Section 4. Conforming language to establish that employees of the authority are in the exempt service under AS 79.25.110.

Section 5. Conforming language to establish that employees of the authority are subject to AS 39.50 (Conflict of Interest).

Section 6. AUTHORIZATION OF FACILITIES Authorizes authority bonds and reimbursement of municipal and university bonds for 108 specified projects totalling \$499,643,000.

(a) (1) Authorizes the authority to issue \$284,932,000 in bonds to construct 64 specified rural and small municipality projects on DOE's construction and major maintenance lists.

(a) (2) Authorizes the authority to issue \$134,761,000 in bonds to construct 28 specified large municipality projects on DOE's construction and major maintenance lists.

(b) Authorizes the authority to reimburse 100% of net debt service on \$79,950,000 in University of Alaska bonds to construct 16 specified university projects.

(d) Authorizes the university under AS 14.40.253 to issue those bonds.

Section 7. Immediate Effective Date.

SUMMARY
Alaska Education Facilities Financing Program

OBJECTIVES:

1. Provide for the funding of critical rural and urban school construction and major maintenance projects and University of Alaska capital projects when the projects are needed, but before they could be funded by appropriation under a balanced-budget plan.
2. Resume funding of net debt service for school bonds of organized municipalities under formal reimbursement agreements, and provide for continuing this funding indefinitely without impacting the balanced-budget plan.
3. Establish an on-going mechanism, under which projects could be funded indefinitely in an organized manner, under strict criteria and legislative authorization.
4. Fund necessary school construction by means other than G.O. bonds. G.O. bonds: a) could not be issued until after the 1998 election and 2) would be a one-shot affair.
6. Protect a portion (\$1.2 billion) of the Constitutional Budget Reserve Account for future use. The corpus of the initial capitalization of the Education Facilities Fund could not be drawn -- Earnings from the fund would pay for the projects, and potentially allow the fund to grow as well.

SUMMARY

1. Establish the Education Facilities Finance Authority (EFFA) within the Department of Education, and the Education Facilities Fund ("EF Fund") as an asset of the authority. The EFFA would:
 - a. Sell EFFA bonds to directly finance construction of schools upon approval of specific projects by the Legislature. It is contemplated that this method of funding would be used primarily for construction of schools in rural jurisdictions with insufficient tax bases to issue bonds.
 - b. Contract to pay up to 70% of net debt service on municipal bonds issued to finance municipal school facilities

and up to 100% of net debt service on University of Alaska bonds, provided that each specific facility has been approved by the Legislature for a specified level of reimbursement.

c. Apply non-corpus balances of the EF Fund to debt service on EFFA bonds and to the specified percentage of net debt service under authorized reimbursement agreements for municipal school bonds and university bonds.

d. Allow use of a negative pledge of the EF Authorities assets as security for EFFA bonds and for the EFFA 's obligations under authorized reimbursement agreements for municipal school bond and University bond debt service.

2. The EF Fund would be managed by the Permanent Fund Corporation under its statutes. Initial capitalization would come from the constitutional budget reserve, with possible additional deposits from a combination of other sources.

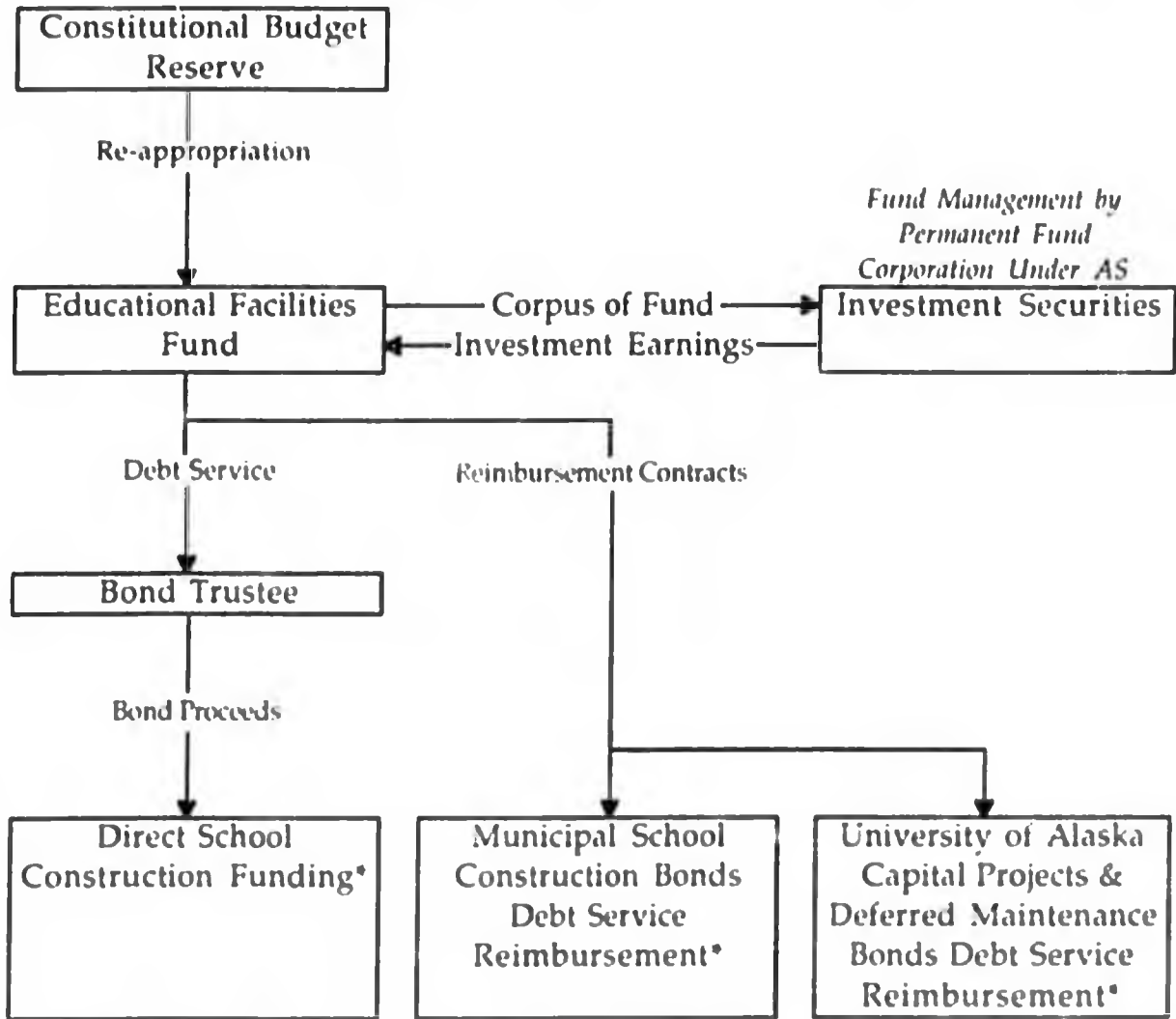
5. The bill would authorize initially: 1) projects from the DOE priority list for EFFA bonds, 2) municipal debt service reimbursement agreements for projects selected by the Legislature, and 3) University of Alaska debt service reimbursement agreements for projects selected by the Legislature.

Future legislatures could continue to authorize more bonds and reimbursement agreements within the financial capabilities of the education facilities fund. The fund would have bonding capacity equal to or exceeding the initial capitalization, without risking the original corpus appropriated to it.

Under reasonable projections of future demands on the fund, it would continue to grow if investments of the fund yield more than bonds issued by the EFFA and by municipalities and the University subject to reimbursement obligations. This should occur with proper management of the authority.

March 5, 1997

Education Facilities Financing Structure



* Specific projects and reimbursement Contracts must be authorized by the Legislature before the Ed. Fac. fund can enter a funding or reimbursement contract.

ALASKA LEGISLATIVE MAJORITY - FIVE YEAR BUDGET STRATEGY as of October 2, 1996

WITH SSSB 37 / HB 216 (EDUCATION FACILITIES FUND)

32697

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenues						
1/Unrestricted Revenues	2,042.0	1,910.0	1,844.0	1,890.2	1,886.1	1,846.7
1/Other Sources/Adjustments	101.7	33.5	30.0	30.0	30.0	39.0
1/AHFC Dividend	70.0	50.0	72.1	74.3	76.5	78.8
1/AIDEA Dividend	0.0	15.0	25.6	26.5	28.0	28.4
2/EFFA Dividend (line 6b)	0.0	0.0	63.9	41.7	41.7	41.7
3/Projected CBRF Earnings	0.0	125.0	98.1	99.4	106.5	113.5
1/New Revenues	0.0	5.0	66.0	68.0	70.0	72.0
Total Revenues	2,213.7	2,138.5	2,199.6	2,230.1	2,238.7	2,220.0
(Total Revenues Projected in Five Year Budget Strategy)	2,213.7	2,138.5	2,221.8	2,274.0	2,270.0	2,240.0
Expenditures						
1/Operating	2,218.1	2,192.2	2,131.5	2,089.7	2,066.4	2,053.6
1/Debt Service	109.4	93.1	91.0	82.8	66.1	48.9
1/Capital	116.0	100.1	100.0	100.0	100.0	100.0
4/(Less) Programmed Capital Projects of EFFA	0.0	0.0	(28.6)	(28.6)	(28.6)	(28.6)
1/Specials/Transfers/Fund Capitalizations	18.6	15.4	17.5	17.5	17.5	17.5
1/Revised Programs/Supplementals	3.0	19.2	20.0	20.0	20.0	20.0
Total Expenditures	2,535.1	2,420.0	2,331.4	2,281.4	2,241.4	2,211.4
(Total On-Budget Expenditures Projected in Five Year Budget Strategy)	2,535.1	2,420.0	2,360.0	2,310.0	2,270.0	2,240.0
1/Expenditure Reduction from Previous FY		(85.1)	(88.6)	(50.0)	(40.0)	(30.0)
1/As a % of Total Expenditures		-3.40%	-3.66%	-2.14%	-1.75%	-1.34%
1/Projected Fiscal Gap/(Surplus) - from/(to) CBRF	291.4	281.5	131.7	51.3	2.6	-8.7
CBRF Beginning Balance						
1/Projected Earnings	124.6	125.0	98.1	99.4	106.5	113.5
1/Transfers to General Fund	0.0	(125.0)	(98.1)	(99.4)	(106.5)	(113.5)
5/Transfers to Education Facilities Fund	0.0	(1,200.0)	0.0	0.0	0.0	0.0
1/Additional Settlement Deposits	551.5	350.0	150.0	150.0	100.0	100.0
1/Net of Sweep Provisions	(20.5)	0.0	0.0	0.0	0.0	0.0
1/Principal to Full Fiscal Gap [Transfers (to)/from budget]	(291.4)	(281.5)	(131.7)	(51.3)	(2.6)	8.7
CBRF Ending Balance	2,499.6	1,368.1	1,286.4	1,485.1	1,582.5	1,691.2
6/Education Facilities Fund						
a/Beginning Balance	0.0	0.0	1,200.0	1,200.0	1,200.0	1,200.0
b/Transfers From CBRF/(To) Revenues, EFFA Dividend (line 2)	0.0	1,200.0	(63.9)	(41.7)	(41.7)	(41.7)
c/Earnings	0.0	0.0	86.0	86.0	86.0	86.0
d/Bond Proceeds	0.0	0.0	250.0	250.0	0.0	0.0
e/Debt Service	0.0	0.0	(22.2)	(44.4)	(44.4)	(44.4)
f/School Construction	0.0	0.0	(250.0)	(250.0)	0.0	0.0
Education Fac. Fund Ending Balance	0.0	1,200.0	1,200.0	1,200.0	1,200.0	1,200.0
7/Consolidated CBRF/Ed. Fac. Fund Balances	2,499.6	2,568.1	2,586.4	2,685.1	2,782.5	2,891.2
(1/ CBRF Ending Balance projected in October 2 Budget Strategy)	2,499.6	2,568.1	2,579.8	2,693.8	2,807.5	2,917.7
8/Cumulative Gain/(Loss) in net Revenues with EF Fund	0.0	0.0	8.6	(8.7)	(25.0)	(42.5)
9/Cumulative Capital Assets Acquired (Construction/Def. Maint)	0.0	0.0	250.0	500.0	500.0	500.0
10/Total Capital and Cash Assets / CBRF	2,499.6	2,568.1	2,836.4	3,185.1	3,282.5	3,391.2
(1/ CBRF Ending Balance projected in October 2 Budget Strategy)	2,499.6	2,568.1	2,579.8	2,693.8	2,807.5	2,917.7
11/Cumulative Gain/(Loss) with EF Fund	+0.0	+0.0	+256.6	+491.3	+475.0	+457.5

ALASKA LEGISLATIVE MAJORITY FIVE YEAR BUDGET STRATEGY
as of October 2, 1996

**Modified to Include \$500 million New School Construction and Deferred
Maintenance Using SSSB 37 Methodology**

- School Construction & Deferred Maintenance program modeled:

School Construction and Deferred Maintenance Funded	
FY 1998	\$250,000,000
FY 1999	\$250,000,000
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Total	\$500,000,000

- General assumptions regarding the Education Facilities Fund:
 - Earnings will be the same as projected in the Five Year Strategy for the CBRF (7.17%, as projected by the Permanent Fund Corporation).
 - True interest cost of bonds will be that of 'A' rated bonds marketed in the US the week of 3/14/97. (The bonds will likely be rated higher than that, leading to a lower interest rate.)
 - Earnings not required to pay debt service are paid as Dividends to the State annually in order to consolidate them into the Five Year Strategy.

- Consolidation of the SSSB 37 program with the Five Year Budget Strategy included modifying the following lines of the Five Year Strategy model as described below:

1/ No modifications to assumptions or methodology in these lines. They are the same assumptions/methodology as in the original Five Year Strategy model.

2/ All earnings of the Education Facilities Finance Authority surplus to its debt service obligations are treated as Dividends to the State's general revenue stream.

3/ The Five Year Budget Strategy shows the earnings of the CBRF as revenues. This consolidation shows the earnings of the smaller CBRF.

4/ The Educational Facilities Finance Authority will fund projects that otherwise would be funded out of the annual Capital budget. This consolidation offsets the cost of these projects, assumed to be the average of the last three fiscal years (FY95, FY96 and FY97) capital budget items for school construction and deferred maintenance. This average is \$28.6 million annually.

5/ Line 5 shows the \$1.2 billion that would be transferred from the CBRF to the Ed. Fac. Fund by SSSB 37 and SB 111, the accompanying appropriation bill. This transfer ties to line 6b.

6/ This new section projects the operation of the Education Facilities Fund established by SSSB 37. In this consolidation, the Fund's earnings (line 6c) pay

debt service on Authority bonds (line 6e), with the balance being transferred to general revenues in line "2/Education Facilities Financing Authority (EFFA) Dividend."

7/ Line 7 is the sum of "CBRF Ending Balance" and "Education Fac. Fund Ending Balance."

8/ Line 8 is the difference between the ending balance in the CBRF as projected in the Five Year Budget Strategy and the combined ending balances of the CBRF and the Ed. Fac. Fund.

9/ Line 9 is the total capital provided for school construction and deferred maintenance by the Education Facilities Finance Authority. In this example, the total is \$500 million, evenly split between FY98 and FY99.

10/ Line 10 is the sum of the combined ending balances of the CBRF and the Ed. Fac. Fund, plus the capital assets underwritten by the Education Facilities Finance Authority. (line 7 plus line 9)

11/ Line 11 is the difference between line 10 and the ending balance in the CBRF as projected in the Five Year Budget Strategy, and approximates the net gain in assets that occurs under SSSB 37 methodology.

This gain in assets is achieved by providing \$500 million of school construction & deferred maintenance during the 5-year period for a cash cost to the balance sheet of only \$42.5 million.

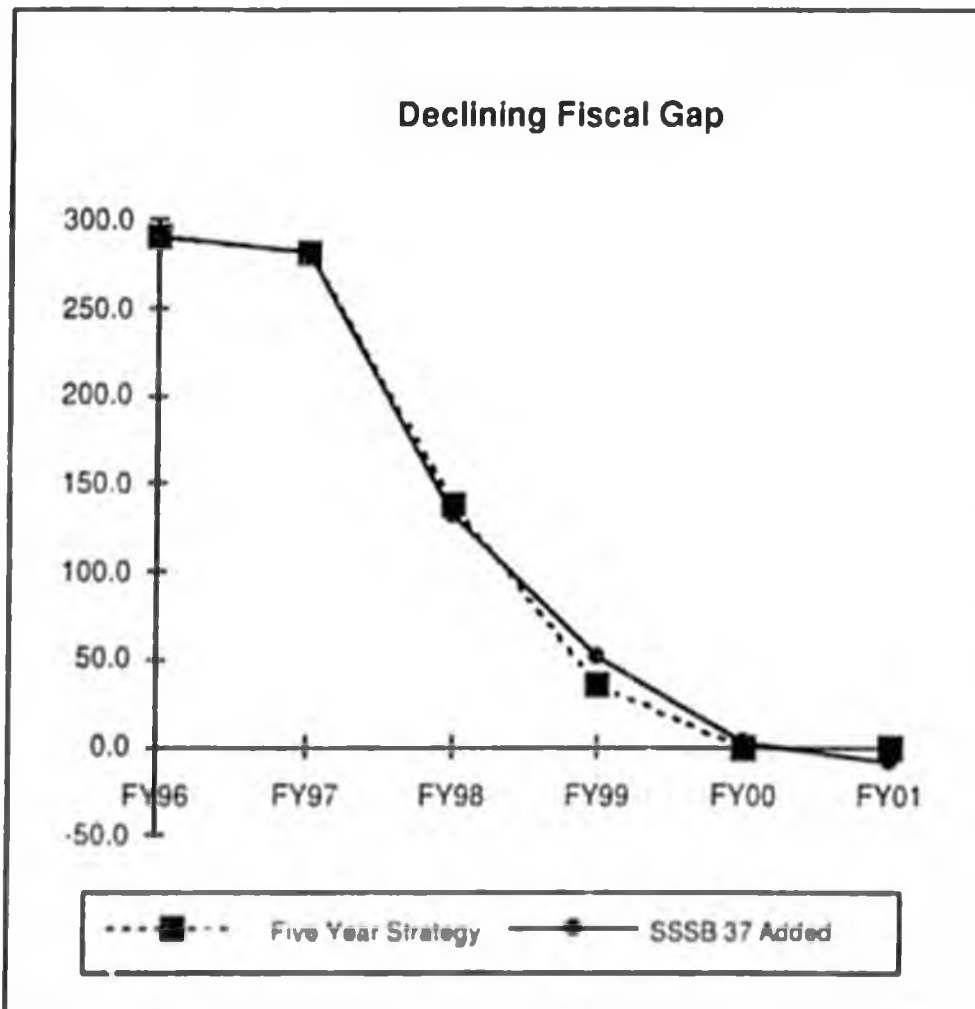
ALASKA LEGISLATIVE MAJORITY FIVE YEAR BUDGET STRATEGY
as of October 2, 1996

Modified to Include \$500 million New School Construction and Deferred
Maintenance Using SSSB 37 Methodology

Noteworthy Results:

• Adding the SSSB 37 EFA methodology does not significantly slow the reduction of the "fiscal gap." In fact, it provides a surplus in FY2001. In short, SSSB 37 methodology can be readily meshed with the Five Year Strategy, without causing noticeable changes -- while providing \$500 million in construction & major maintenance at the same time.

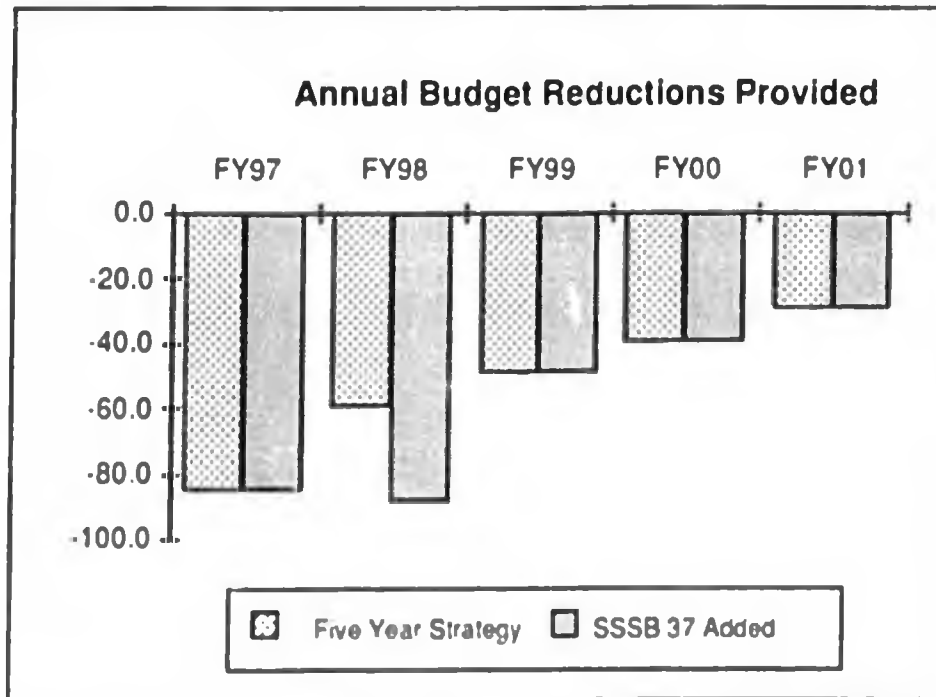
	Annual Fiscal Gap					
	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Five Year Strategy	291.4	281.5	138.2	36.1	0.0	0.0
EFA Methodology Added	291.4	281.5	131.7	51.3	2.6	-8.7



• Adding the SSSB 37 EFA methodology allows the FY98 budget to be cut by more than the Five Year Strategy, while still providing the identical services (because the Ed. Fac. Finance Authority provides deferred maintenance and construction that would otherwise be funded by the Capital budget).

Annual Budget Cuts - Same Services Provided

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Five Year Strategy	(85.1)	(60.0)	(50.0)	(40.0)	(30.0)
SSSB 37 Added	(85.1)	(88.6)	(50.0)	(40.0)	(30.0)



Annual Percent Budget Cuts - Same Services Provided

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Five Year Strategy	-3.40%	-2.48%	-2.12%	-1.73%	-1.32%
SSSB 37 Added	-3.40%	-3.66%	-2.14%	-1.75%	-1.34%

**ALASKA LEGISLATIVE MAJORITY
FIVE YEAR BUDGET STRATEGY**

October 2, 1996

	<u>FY 1996</u>	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
Revenues						
Unrestricted Revenues (1)	2,042.0	1,910.0	1,844.0	1,890.2	1,886.1	1,846.7
Other Sources/Adjustments (2)	101.7	33.5	30.0	30.0	30.0	39.0
AHFC Dividend (3)	70.0	50.0	72.1	74.3	76.5	78.8
AIDEA Dividend (4)	0.0	15.0	25.8	26.5	29.0	28.4
Projected CBRF Earnings (5)	0.0	125.0	184.1	185.0	179.4	175.1
New Revenues (6)	0.0	5.0	66.0	68.0	70.0	72.0
Total Revenues	2,213.7	2,138.5	2,221.8	2,274.0	2,270.0	2,240.0
Expenditures						
Operating (7)	2,218.1	2,192.2	2,131.5	2,089.7	2,066.4	2,053.8
Debt Service (8)	109.4	93.1	91.0	82.8	66.1	48.9
Capital	116.0	100.1	100.0	100.0	100.0	100.0
Specials/Transfers/Fund Capitalizations (8)	18.6	15.4	17.5	17.5	17.5	17.5
Revised Programs/Supplementals (9)	43.0	19.2	20.0	20.0	20.0	20.0
Total Expenditures	2,505.1	2,420.0	2,360.0	2,310.0	2,270.0	2,240.0
Expenditure Reduction from Previous FY (10)		(85.1)	(60.0)	(50.0)	(40.0)	(30.0)
As a % of Total Expenditures		-3.40%	-2.48%	-2.12%	-1.73%	-1.32%
Projected Fiscal Gap (Use CBRF to Fill)	291.4	281.5	138.2	36.1	0.0	0.0
CBRF Beginning Balance						
Projected Earnings (5)	124.6	125.0	184.1	185.0	193.1	201.3
Earnings Transferred to General Fund (5)	0.0	(125.0)	(184.1)	(185.0)	(179.4)	(175.1)
Additional Settlement Deposits (11)	551.5	350.0	150.0	150.0	100.0	100.0
Net of Sweep Provisions (12)	(20.5)	0.0	0.0	0.0	0.0	0.0
Principal To Fill Fiscal Gap	(291.4)	(281.5)	(138.2)	(36.1)	0.0	0.0
CBRF Ending Balance	2,499.6	2,538.1	2,579.8	2,693.8	2,807.5	2,933.7
PF Earnings Reserve Beginning Balance (13)						
Income	1,835.0	1,216.0	1,309.0	1,375.0	1,444.0	1,516.0
Dividends	(645.0)	(661.0)	(670.0)	(698.0)	(741.0)	(710.0)
Inflation Proofing	(406.0)	(490.0)	(544.0)	(569.0)	(595.0)	(622.0)
To Principal/Amerada Hess	(19.0)	(9.0)	(10.0)	(11.0)	(12.0)	(13.0)
Legislative Deposits to Principal (14)	(1,867.0)	0.0	0.0	0.0	0.0	0.0
PF Earnings Reserve Ending Balance	101.0	157.0	242.0	339.0	435.0	608.0
Increase to PF Reserves from Previous FY		56.0	85.0	97.0	96.0	171.0

**At the end of two years, this strategy will be extended an additional two years,
creating a rolling, long range strategy.**

ALASKA LEGISLATIVE MAJORITY
FIVE YEAR BUDGET STRATEGY
October 2, 1996

- (1) Spring 1996 Department of Revenue base case revenue forecast. FY97 revenues based on \$16.67/bbl ANS market price. All values are reflected in millions of dollars.
- (2) FY 96 includes \$75.9 of one time receipts from the Investment Loss Trust Fund, an additional \$9.0 is reflected in FY 01, although some or all of these receipts may occur earlier. The five year average for Other Sources/ Adjustments is \$55.0.
- (3) Per Ch 103 SLA 1995, page 35, estimated available amounts are \$103.0 from FY 97 through FY 00. Assumes a 3% annual increase in contributions to the General Fund (GF) starting in FY 98.
- (4) Assumes an annual dividend of 50% of the net revenues per AIDEA's *Estimated Future Debt Service Coverage*, as of June 30, 1995. This formula allows AIDEA to cover its projected debt service requirements in each year.
- (5) Projected annual earnings of 7.17% on CBRF balance starting in FY 98, based on Permanent Fund Corporation's projected earnings per its December 1995 report.
- (6) FY 97 represents Governor's proposed fee increases not requiring legislation. New revenues are projected to grow annually by 2% starting in FY 99.
- (7) Includes fiscal notes for all new legislation, but does not include shared taxes or fisheries enhancement statutory pass-throughs.
- (8) Includes surcharge transfers to the Oil & Hazardous Substance Release Prevention and Response Fund, transfer of Storage Tank Registration Fees to the Storage Tank Assistance Fund, and capitalization of the Alaska Clean Water Fund.
- (9) The FY 94 and FY 95 average of GF Revised Programs is \$3.6. FY95 and FY96 average is \$3.1
- (10) GF reductions total \$250.0 over 5 years
- (11) FY 98-01 projected deposits total \$500.0. FY 98 and FY 99 estimates are per the LRFPC Report. Subsequent year projections are based on total billings subject to deposit in the CBRF of \$1,650.7 as of June 30, 1995, of which \$57.8 has been received and deposited since that date.
- (12) Represents the net of a) prior year sweep amounts repaid to the GF and b) GF sweep amounts deposited into the CBRF
- (13) Alaska Permanent Fund Corporation's financial projections as of May 31, 1996.
- (14) Includes \$1,367.0 to be deposited pursuant to SB 84 and \$500.0 deposited at the beginning of FY 98

SENATE COMMUNITY & REGIONAL AFFAIRS COMMITTEE
March 5, 1997
1:33 p.m.

SSSB 37 EDUCATION FACILITIES FINANCING AUTHORITY
SB 111 APPROP: EDUCATION FACILITIES FUND

CHAIRMAN MACKIE called the Senate Community & Regional Affairs Committee meeting to order at 1:33 p.m. All committee members were in attendance.

CHAIRMAN MACKIE brought SSSB 37 and SB 111 before the committee and, as prime sponsor of the legislation, turned the gavel over to Vice Chairman Wilken before presenting an overview on the bill.

Chairman Mackie explained the original SB 37 was a general obligation bonding bill, which would allow for the sale of g.o. bonds for school construction in the state. However, because there wasn't a lot of interest being generated in the g.o. bonding concept, he decided to go to the facilities financing authority concept contained in the sponsor substitute.

SSSB 37 would take \$1.2 billion from the Constitutional Budget Reserve Fund (CBR) and create the Education Facilities Financing Authority, which is similar to AIDEA and AHFC. The \$1.2 billion from the CBR would be managed by the Permanent Fund Corporation. He emphasized that the principal of \$1.2 billion would not be spent, but would be used to generate interest earnings through the management of the permanent fund to finance and repay revenue bonds that would be issued and sold by the authority to construct schools throughout the state of Alaska. He stressed this is not a raid on the CBR -- it is what he believes to be a creative option that's out there. It is an option he believes the Legislature should take a look at to deal with the ever growing major maintenance and new construction needs throughout the schools in Alaska as well as the University of Alaska, which has major deferred maintenance problems and new construction needs as well.

Chairman Mackie advised that the legislation authorizes the following \$500 million worth of school construction and repair projects: (1) \$285 million in projects selected from the DOE priority list for small schools and rural areas of the state; (2) \$135 million for projects selected from priority lists submitted by large municipal school districts; and (3) \$80 million for University of Alaska projects and a large backlog of deferred maintenance needs.

He has felt from the start that unless there was fairness that was applied to any effort, regardless of who introduces a bill, nothing is going to happen unless there is equity in both the urban and the rural areas of the state. He added that all of the projects would be funded 100 percent and would not require a local match.

In closing, Chairman Mackie pointed out that revenues from the CBR are factored into the long-term budget plan, and this legislation would take from that, so it is a policy question that will need to be debated further as the bill goes through the process.

Number 155

SENATOR HOFFMAN asked if because the legislation takes the money from the Constitutional Budget Reserve Fund, it would require a three-quarters vote for passage, and CHAIRMAN MACKIE acknowledged that it would.

Number 160

Vice Chairman Wilken returned the gavel to Chairman Mackie.

Number 170

STEVE MCPHETRES , Executive Director, Alaska Council of School Administrators, expressed appreciation for the introduction of the legislation, which, he said, is an effort to put another idea on the table to bring about a solution for a long-term problem: school projects that have been listed year in and year out, and they continue to become more and more of a problem.

Mr. McPhetres said g.o. bonds do not allow for a good long-term plan for addressing the long-term needs of school facilities across the state of Alaska. He said in their efforts to come up with a possible solution to present to the Legislature this year, they came up with this concept of establishing the Educational Facilities Fund. He also pointed out that the control of the fund and the control of the projects still maintain themselves in the power of the Legislature.

The school administrators believe that this legislation is a good effort in not only addressing one issue, but three issues that are there: (1) the municipal school districts who have continued to have growth problems; (2) the long-term needs of rural Alaska that have been out there and have not been addressed; and (3) the University of Alaska's tremendous major maintenance that needs to be addressed.

Concluding, Mr. McPhetres said his organization is fully supportive of SSSB 37 and he expressed their willingness to continue to work with the committees in seeing that it becomes a reality.

Number 230

BOB LERESCHE , an investment banker representing Cominco Alaska, said Senator Mackie, himself and others have been working in trying to figure out the best way to meet the great need that exists for school construction and major maintenance projects. He said there are four or five other alternatives, but he believes this new alternative is the best way to meet the present needs while neither draining the CBRF nor busting the budget plan. In addition, it provides the advantage of establishing an agency that would last for a long time and allow a really organized, measured way to meet these school needs as they arise, and to meet them under strict criteria and legislative authorization for each one.

Presenting a brief overview on the legislation, Mr. LeResche said the bill establishes the Educational Facilities Finance Authority within the Department of Education. Sitting on the three-member

board of directors would be the commissioner of education, commissioner of revenue and the commissioner of transportation and public facilities. The bill also establishes an Educational Facilities Fund, which is an asset of the authority.

The authority would be authorized to do three things:

1. Sell their bonds directly and finance the schools directly. This could be done only upon approval of the specific projects by the Legislature. This method would be used primarily for rural jurisdictions and small municipalities which don't have sufficient tax bases to issue their own bonds;
2. It could contract with municipalities who could sell their bonds, to pay a designated percentage of net debt service on municipal bonds issued to finance schools; and
3. It could contract with the University of Alaska to reimburse up to 100 percent of university bonds issued.

Mr. LeResche said this concept sounds similar to what has gone on in the past, but there is an important difference. Under this bill the municipalities would actually have a contracted reimbursement obligation from this authority, which would greatly improve the credit of their bonds and thereby lower the interest rate. He said that really firms up without an annual argument over what level of debt service to appropriate.

Other highlights of the bill outlined by Mr. LeResche were:

-- Some of the earnings of the fund would be applied to debt service and the reimbursement agreements.

-- The fund would be managed by the Permanent Fund Corporation under its basic statute.

-- The bill would initially authorize \$500 million worth of school construction and repair projects.

-- Future legislatures could continue to authorize more bonds and reimbursement agreements within the financial capabilities of the education facilities fund. The fund would have bonding capacity equal to or exceeding the initial \$1.2 billion capitalization, without risking the original \$1.2 billion corpus.

-- Under reasonable projections of future demands on the fund, the fund would continue to grow if its investments yielded more than they had to pay on the bonds they issue. He said he is quite sure this would occur with proper management of the authority.

Mr. LeResche said when people start talking about the fine points of arbitrage and tax law, this is not that complicated. It is something that has been done for years for the private sector through AHFC and AIDEA.

Mr. LeResche noted that there has been criticism of this concept relating to tax law, and it is a question as to whether or not the

yield from the fund would have to be restricted to match the

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interest rate of the bonds. He said he quite certain that his bill has been drafted around that problem and there is a high level of probability that a large portion of the fund will escape this yield restriction problem.

Number 382

SENATOR HOFFMAN said the bill provides putting \$1.2 billion into the fund and spending \$500 million in 1997, and he asked what how much would be available in subsequent years. CHAIRMAN MACKIE clarified that if the \$500 million is spent initially and \$60 million a year for the next 15 years, the earnings would sustain that. If only the \$500 million worth of projects is done right now, the fund would actually grow from \$1.2 billion to \$1.5 billion at that end of that term.

CHAIRMAN MACKIE noted the King Salmon, Anchorage, Cordova, Kenai and Kodiak teleconference sites were listening in to the meeting and that testimony would be taken from witnesses waiting to testify at the Fairbanks, Mat-Su, Tok and Sitka sites.

Number 414

JOHN HOLST , Superintendent of the Sitka School District testifying in Sitka, commended Senator Mackie for sponsoring the bill. He said he is particularly pleased because the legislation contains two renovation projects for the Sitka School District that have been on the list for nearly 10 years, as well as the completion of UAS Sitka classrooms.

Number 445

CARL ROSE , Executive Director, Association of Alaska School Boards, noted he had offered written testimony in support of SSSB 37 and SB 111. He said this solution to address school construction and major maintenance needs has come of age. He said we have deferred maintenance for some period of time and our inability to address it through our capital budget and other means available through municipal bonding, etc., has not met our needs.

Mr. Rose said we've built these schools, and the question is if we can't adequately maintain them, what is the end result. Right now, school districts are looking at the issue of insurability. The ability to continue to insure the schools throughout Alaska with the loss rate of \$1.5 million per year over the last year in terms of fire loss is a major issue, and the inability to maintain these facilities in such a fashion that they become susceptible to fire and loss. He cautioned the failure to maintain insurability statewide passes the issue on to the Legislature; if these schools are uninsurable, the Legislature stands fully accountable for any loss that takes place.

Number 475

DARROL HARGRAVES , testifying from Tok, noted that other states that have attempted to use their oil wealth and resources in a similar

manner have been very happy with it over the decades. He said this may be one of the finest things that has been done for a

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permanent basis with oil reserve revenues that have come to the state.

Mr. Hargraves said he does have some concerns from a local and a statewide perspective. He said with a half billion dollars being thrown on the street at one time, there will be a rush of design people coming back into the state, as has happened in the past. He suggested it would better to set up a way to maintain a steady stream in smaller increments which would provide much more stability and consistency across the state. He also suggested looking at putting two additional people from the private sector on the board of directors, as well as including in the legislation a CIP list for picking priorities for funding that has gone through some kind of approval process.

Number 520

WENDY REDMAN , Vice President, Statewide University of Alaska System, expressed appreciation that the Legislature is putting the issue of deferred maintenance back on the table in a big and significant way. She noted approximately 45 percent of the state facilities are university facilities, and that this has been the number one priority for the Board of Regents.

The problem that the university is looking at today is about \$165 million for housing and non-housing. The issue requires a two-pronged approach: one is to make sure that the maintenance accounts in their operating budget are brought up to par at the same time they are trying to do the deferred maintenance. At the same time that the university has been taking reductions from the Legislature, in the last two years they have moved about \$3.5 million out of programs into the maintenance budget. By the end of FY 98, they will move another \$3.5 out of program into maintenance to bring those budgets up to par.

Ms. Redman pointed out that the majority of deferred maintenance projects are small projects that are done with local hire. She agreed with Mr. Hargraves comments about the importance of having a plan on how those projects will hit the street.

In closing, Ms. Redman suggested that since the university does have nearly half of all of the state facilities, the committee may want to consider putting a representative from the Board of Regents on the authority's board of directors.

Number 570

DOH MOORE , Manager of the Matanuska-Susitna Borough, said in a borough with perhaps the fastest growing school district in the state of Alaska, they have a pressing need for new construction of facilities. They have approximately 70 temporary portable classrooms spread throughout their district housing a large portion of their students.

TAPE 97-8, SIDE B

Number 001

Mr. Moore commented that there is something to be said for the idea

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about including and requiring a local match in the funding for these projects either through local government bonded indebtedness or by whatever means. A local election on the project would help to authenticate that the project is indeed something that the people want. The local government would then have a stake in the ownership of the facility. Also, it would provide additional leverage to the funds that are available.

Number 030

AL WEINBERG , representing the Kashunamiut School District and the Citizens for the Educational Advancement of Alaska's Children, said as far as the K-12 public schools are concerned, the Department of Education has identified in the first year of six-year plans that are presently on the table about \$615 million worth of new construction or major maintenance that needs to be done at some time. He said with \$615 million it takes about \$17 million a year just to keep up with the inflationary growth of construction and maintenance cost on that amount of money. The biggest problem that has faced the state in terms of getting rid of this backlog, or at least addressing the backlog, is the lack of a long-term, stable source of funds so these projects can be systematically taken off the books and in some kind of a reasonable priority order.

Mr. Weinberg related the groups he represents are concerned about equity in the way the state spends future funds and their concern is in many ways based on the way the state has spent its funds recently for capital projects for public schools. In the last nine years, the state has spent \$1.3 billion for capital projects in the public schools, but 93 percent of that money has gone to municipal districts leaving only about seven percent that has gone to REAA's, which have no capacity to bond, no capacity to raise and collect taxes.

In closing, Mr. Weinberg encouraged creating a long-term stable source of revenue to deal with these problems and then to address the problems on the basis of demonstrated need as opposed to geography, community wealth, or political power.

Number 126

LEN MACKLER , Facilities Director of the Fairbanks School District, said he was testifying as the statewide president of the Council of Education and Facilities Planners. He related a calculation done for the bond reimbursement committee two years ago showed that in just new students coming into the state the construction needs for new seats and new classrooms was around \$100 million a year. However, the maintenance and renewal needs of the existing facilities in the state just keeps on going and going. He stressed the need to come up with a solution to this problem and his group thinks this is an excellent start, an excellent vehicle that's being proposed to solve this problem in the short term and the long term.

Number 158

CHAIRMAN MACKIE asked Mr. Mackler if he was comfortable with the manner in which the Fairbanks projects were listed in the bill in

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terms of the priorities of his school district. MR. MACKLER acknowledged he was, and he added the district has a consistent six-year plan that the board reviews and agrees to every year, and the projects in the bill are the first year of their six-year plan.

Number 170

KEVIN RITCHIE, representing the Alaska Municipal League (AML) and the Alaska Conference of Mayors, thanked Senator Mackie for his sponsorship of SSSB 37, which he said is a top AML and Alaska Conference of Mayors priority. He said this is a critical part of the state budget problem because if we don't fix what we currently have and expand what we need to it turns into a health safety problem. In the longer term, the cost of deterioration and the cost of inflation team up to significantly increase the costs that are being deferred to the future each year. He urged the committee's support and consideration of the legislation.

Number 210

LARRY WIGET, Director of Government Relations for the Anchorage School District, voiced the district's support for the concept of creating the Educational Facilities Financing Authority and the Educational Facilities Fund, which he said is a responsible, innovative way to address the needs of schools now and in the future.

Number 230

SAM TOWARAK, speaking on behalf of the Bond Reimbursement & Grant Committee, said the major issue facing the education facilities is the need to establish a stable long-term source of funding for K-12 facility projects, which is an integral part of a comprehensive plan for statewide capital needs. To implement this, projects should be funded in the priority order established in the statutory ranking system, and the committee and the Department of Education should continue to develop, review and adopt facility related standards.

Number 355

CHAIRMAN MACKIE asked Mr. Towarak his thoughts on the Legislature identifying some standards for the distribution of these monies and MR. TOWARAK suggested charging the Educational Facilities Authority with managing the dollars so that it has a maximum impact on the local economy.

Number 336

SENATOR WILKEN said he thinks the concept of the legislation is exciting, but the thing that bothers him the most about it is that it's a initial policy statement on how the Legislature is going to deal with the CBR, now at \$3.4 billion with the possibility of

being up to close to \$5 billion by the end of the year. There are now three plans on what to do with the CBR, and he said the worst thing we could do is piecemeal it to death and to find out some years down the path that we don't have a CBR anymore and we're back to the permanent fund. He wants to give careful consideration to

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a policy statement that will have to be made about what to do with the CBR.

CHAIRMAN MACKIE stated it was his intention to hold the legislation over to the Friday meeting. He then adjourned the meeting at 3:10 p.m.

SENATE COMMUNITY & REGIONAL AFFAIRS COMMITTEE

March 7, 1997

1:30 p.m.

SSSB 37 EDUCATION FACILITIES FINANCING AUTHORITY
SB 111 APPROP: EDUCATION FACILITIES FUND

CHAIRMAN MACKIE brought SSSB 37 and SB 111 back before the committee.

RICK CROSS, Deputy Commissioner, Department of Education, expressed the department's willingness to work on the difficult problem of providing a steady source of funding for capital construction and major maintenance needs.

Mr. Cross noted the original version of the legislation used the Department of Education's capital construction and major maintenance list as the list that would be funded. However, the sponsor substitute uses a modified list, and the the department strongly recommends that SSSB 37 revert to using the department's capital construction and major maintenance list. He said the Bond Reimbursement & Debt Review Committee has worked hard over the last several years to improve the quality of that list and to have it become a list that truly reflects the capital construction and major maintenance needs throughout the entire state. He added that the process is not perfect, but the pledge is there is to continue to improve it.

Mr. Cross also pointed out that there is a statutory process for ranking projects, which, he said, is fair to both urban and bush Alaska and it is the one that should be used in determining the order of rank.

In conclusion, Mr. Cross said this is part of a solution to the problem of providing a steady source of funding for all of the educational needs, which not only includes capital construction and major maintenance, but includes operation expenses as well. He also expressed the department's willingness to work with the leadership in ensuring that there is a steady source of funding for the operation of the state's school programs that will improve quality for all children.

Number 104

CHAIRMAN MACKIE commented that the DOE list doesn't, in a lot of peoples' minds, take care of needs that are in the urban areas as well as the rural areas. So he has made the decision to look to some of the urban school districts and those members that represent those areas to be more involved in a plan that's going to have fair distribution throughout the state. He added that's the only chance

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that anything like this would even have of being approved. MR. CROSS said he understands what the chairman is saying, but some of the projects in the bill are not approvable under the statute. He also said that when Alaska has had boom years, urban Alaska has been well represented on the list.

Number 140

CHAIRMAN MACKIE stated the issue is a huge policy question, and it is something that is going to be decided by the leadership and the Finance Committee if and when anything like this were to be considered. He thinks it is important to have this issue move over to the Health, Education & Social Services Committee where it can be considered along with other education issues.

Number 155

SENATOR DONLEY stated he thinks the Department of Education has been very biased against urban school districts and that he completely disagrees with the testimony from the department. He said the department has been very difficult to work with over the past four to six years and has been insensitive to the urban areas. It's so bad that for many years the Anchorage School District hasn't even bothered to put in capital requests. He concluded that maybe the fact the department has less contested requests is because some of the urban districts have given up even trying.

SENATOR WILKEN moved SSSB 37 and SB 111 and the attached fiscal notes be passed out of committee with individual recommendations.

SENATOR PHILLIPS objected. The roll was taken with the following result: Senators Donley, Wilken and Mackie voted "Yea" and Senator Phillips voted "Nay." The Chairman stated SSSB 37 and SB 111 would move to the next committee of referral with individual recommendations.

**A Resolution of the Alaska Conference of Mayors and the
Alaska Municipal League Board of Directors**

**A RESOLUTION URGING THE GOVERNOR AND
THE LEGISLATURE TO FIX AND IMPROVE ALASKA'S
DETERIORATING STATE AND LOCAL PUBLIC FACILITIES**

WHEREAS, it is well documented that Alaska's public facilities are severely deteriorating and some are inadequate, including state and local roads, schools, harbors, ports, university, prisons, water, sewer, and drainage systems, public buildings, etc.

WHEREAS, the most costly mistake that Alaska can make for future generations is failing to adequately maintain our public facilities. Failure to take care of our public facilities is mortgaging Alaska's future by allowing required repairs to escalate in severity and cost which must be paid for at a future date.

WHEREAS, it is not in the best interest of the people of Alaska to require local property taxpayers to shoulder the burden of fixing and improving Alaska's public facilities. Local taxpayers must first pay federal income taxes before their earnings can be used to repair public facilities, while the state can use public funds that are not subject to federal income taxes.

NOW, THEREFORE BE IT RESOLVED, the Governor and the Legislature are urged to:

1. Support the implementation of the Education Facilities Financing Authority (SB 37) to meet the backlog of University and school deferred maintenance and improvement needs;
2. Support a public facilities financing mechanism (SJR 21) to meet the backlog of deferred maintenance and improvement needs for state and local roads, harbors, ports, airports, prisons, water, sewer, and drainage systems, public buildings; etc.
3. The existing Municipal Capital Matching Grant Program is recommended as a fair distribution mechanism for capital project funds to communities as it does not require any substantial new state administrative costs.

Passed and Approved April 1, 1997,
at the AMI/ACoM Legislative Conference in Juneau, Alaska

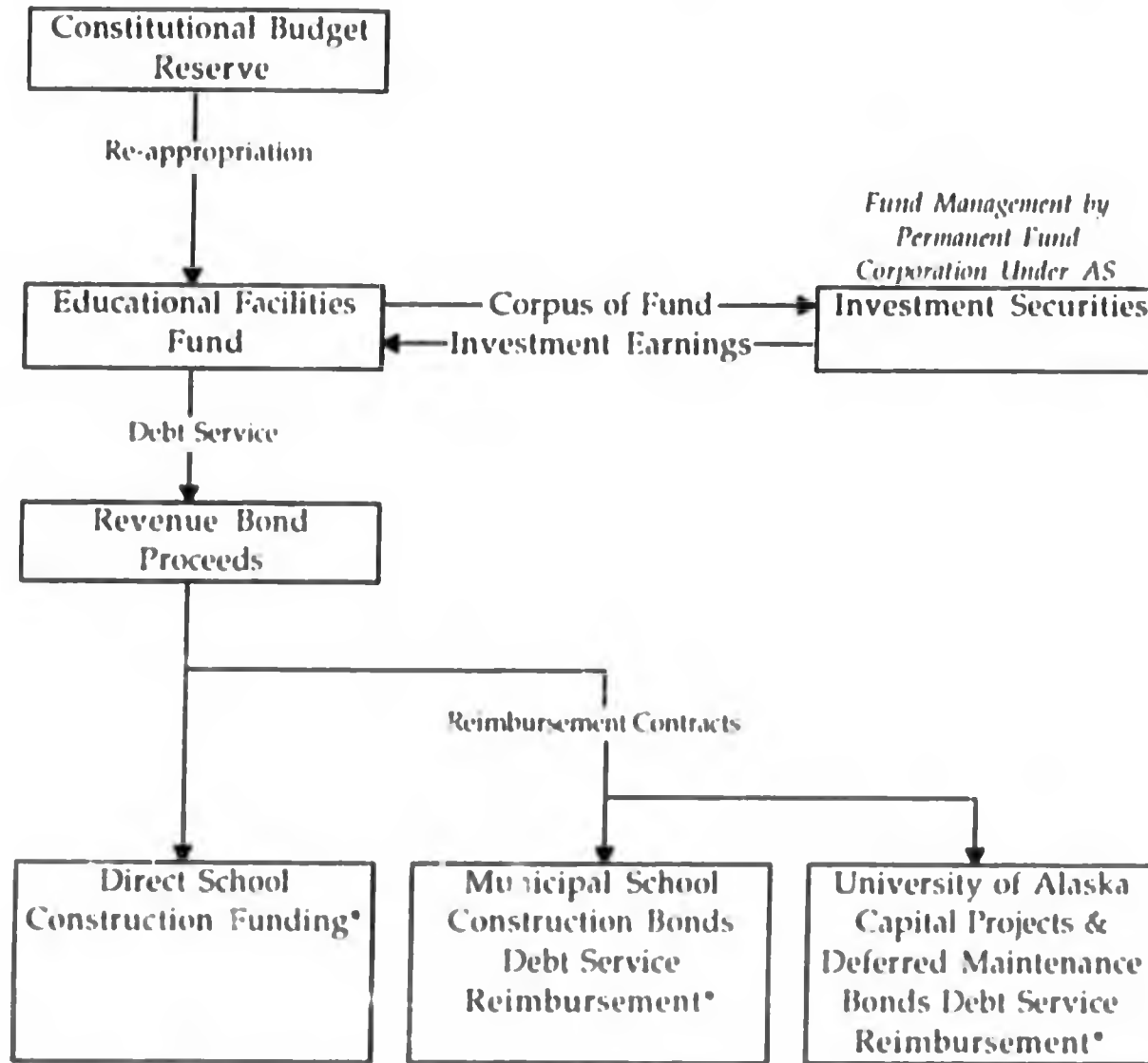
*Alaska Education Facilities
Financing Program*

Senate Bill: SSSB 37
House Bill: CSHB 216

OBJECTIVES

- Fund a designated State share of urban and rural school construction and major maintenance projects and University of Alaska capital projects when the projects are needed, but before they could be funded by appropriation under a balanced-budget plan, or by G.O. Bonds.
- Provide for resumption of reimbursement of net debt service for school bonds of organized municipalities under formal reimbursement agreements, and provide for continuing this funding indefinitely without annual appropriation and without impacting the balanced-budget plan.
- Establish an on-going mechanism, under which projects could be funded indefinitely in an organized manner, under strict criteria and legislative authorization.
- Fund necessary school construction by means other than G.O. bonds. G.O. bonds: a) could not be issued until after the 1998 election and 2) would be a one-shot affair.
- Protect a portion (\$1.2 billion) of the Constitutional Budget Reserve Account for future use.

Education Facilities Financing Structure



* Specific projects and reimbursement Contracts must be authorized by the Legislature before the Ed. Fac. fund can enter a funding or reimbursement contract.

An ONGOING Solution

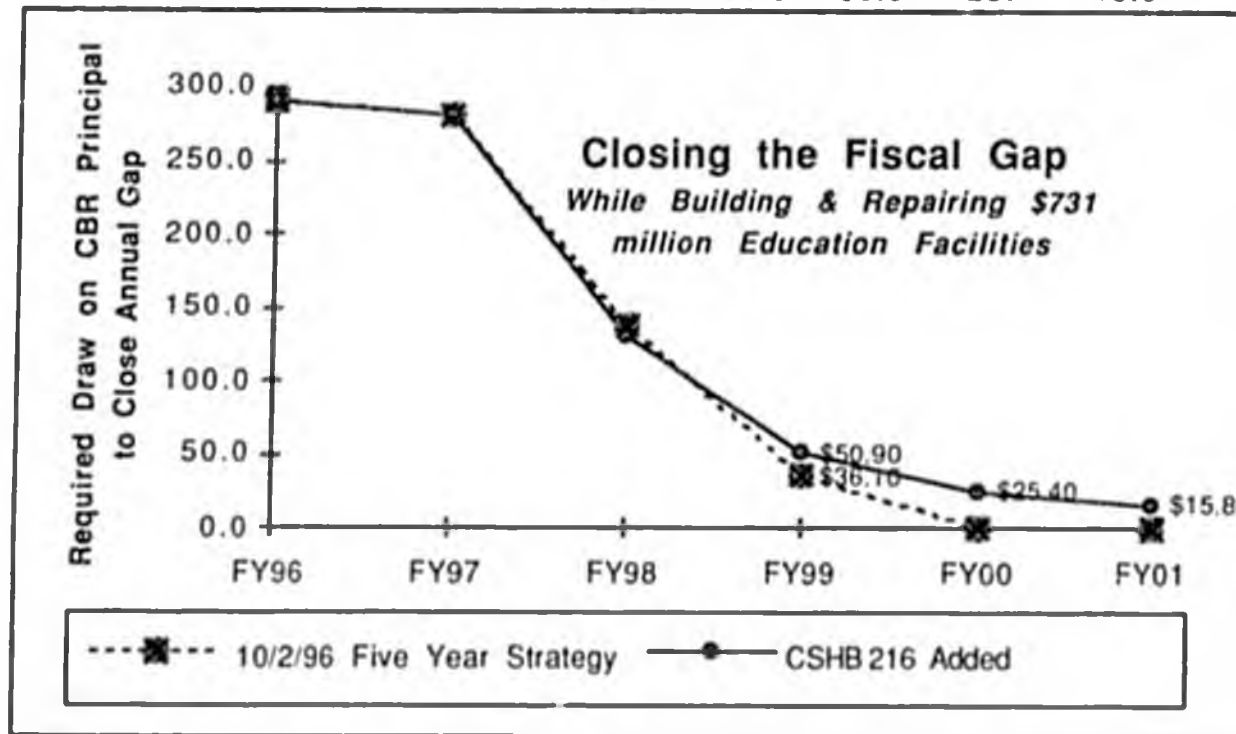
- Future legislatures could continue to authorize more bonds and reimbursement agreements within the financial capabilities of the education facilities fund. The authority would have bonding capacity equal to or exceeding the initial capitalization, without risking the original corpus appropriated to it.
- Under reasonable projections of future demands on the fund, and prudent management, the assets of the corporation would continue to grow if investments of the fund yield more than bonds issued by the EFFA and by municipalities and the University subject to reimbursement obligations. This should occur with proper management of the authority.

Effects on Closing the 'Fiscal Gap'

• Adding the SSSB 37 / HB 216 EFA methodology does not significantly slow the reduction of the "fiscal gap." In fact, it provides a surplus in FY2001. The methodology can be readily meshed with the legislative majority Five Year Strategy, without causing significant changes -- while providing \$731 million in construction & major maintenance at the same time.

Annual Fiscal Gap

	<i>FY96</i>	<i>FY97</i>	<i>FY98</i>	<i>FY99</i>	<i>FY00</i>	<i>FY01</i>
10/2/96 Five Year Strategy	291.4	281.5	138.2	36.1	0.0	0.0
CSHB 216 Added	291.4	281.5	130.3	50.9	25.4	15.8

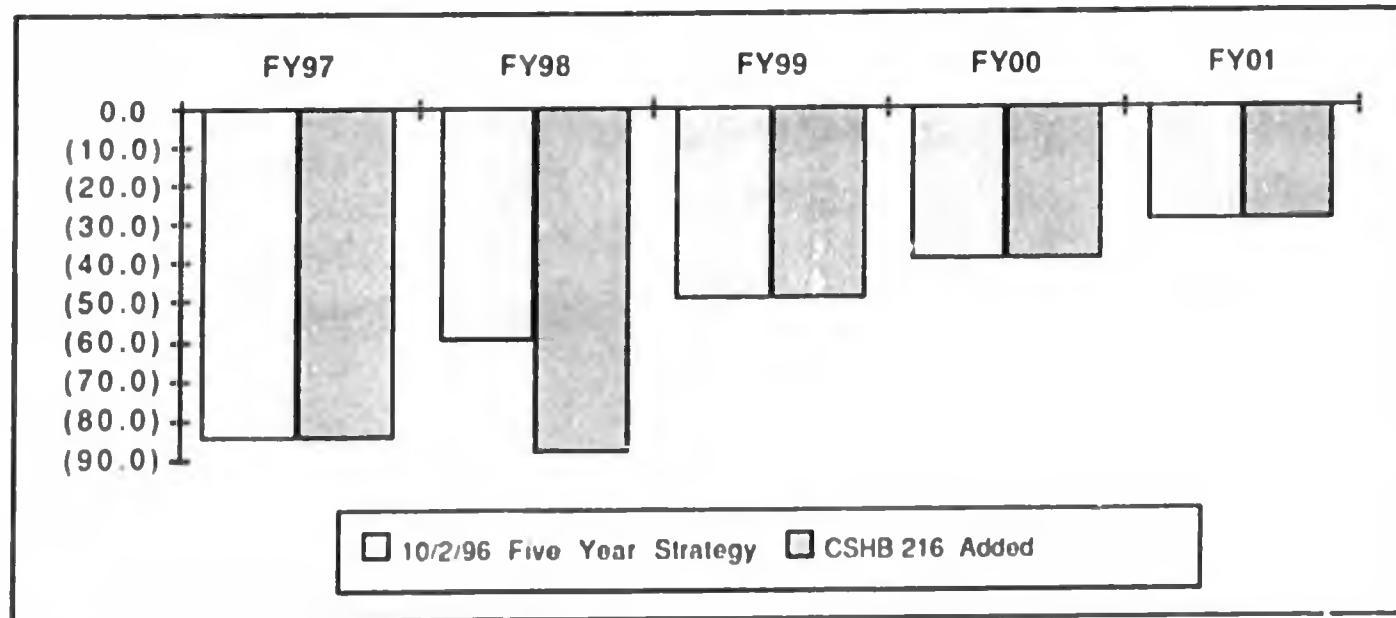


Effects on the Budget Reduction Plan

- Adding the SSSB 37 EFA methodology allows the FY98 General Fund budget to be cut by more than the Five Year Strategy, while still providing the identical services (because the Ed. Fac. Finance Authority provides deferred maintenance and construction that would otherwise be funded by the General Fund Capital budget).

Annual Budget Cuts - Same Services Provided

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
10/2/96 Five Year Strategy	(85.1)	(60.0)	(50.0)	(40.0)	(30.0)
CSHB 216 Added	(85.1)	(88.6)	(50.0)	(40.0)	(30.0)



Annual Percent Budget Cuts - Same Services Provided

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>
Five Year Strategy	-3.40%	-2.48%	-2.12%	-1.73%	-1.32%
CSHB 216 Added	-3.40%	-3.66%	-2.14%	-1.75%	-1.34%

Summary

SSSB 37
CSHB 216

- **Delivers Present Value**
 - Meets needs as they occur
- **Continues year after year**
 - No annual General Fund appropriations required
- **No new taxes - Meets budget plan**
 - Read my lips
- **Protects CBR**
 - Principal is never spent, earnings returned to CBR
- **Enhances Municipal Credits**
 - Reimbursement Contracts v annual appropriations