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SENATE COMMITTEE REPORT

First Committee of Referral

DATE: 1/16/97

FURTHER: Finance

Date of 5-Day Notice: 1/23/97
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: 2/3/97

Health, Education and Social Services Committee considered SENATE BILL NO. 51

"An Act giving notice of and approving the entry into, and the issuance of certificates of participation in, a lease-purchase agreement for a centralized public health laboratory facility."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to the _____ Committee

- Senate Bill:**
- same title
 - new title
- House Bill:**
- same title
 - technical title
 - new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>[Signature]</i>	✓				
<i>[Signature]</i>		<i>Lyde Green</i>	✓		
<i>[Signature]</i>	✓				
<i>[Signature]</i>	✗				
<i>[Signature]</i>	✓				
CHAIR:		CHAIR:			

NEW FISCAL NOTE(S):

Department	Date	Zero	Fiscal
H+SS - Public Health	1/23/97		✓
Admin - General Services	1/24/97		✓
Revenue	1/24/97		✓
Public Safety	1/29/97	✓	

PREVIOUS FISCAL NOTE(S):*

Department	Date	Zero	Fiscal

APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

Revision Date: _____
Title: Authorize Financing for a new lab
Sponsor: Senate Rules
Requestor: _____

Dept. Affected: Health and Social Services
BRU: State Health Services
Component: Laboratory Services
COMPONENT SERIAL NO. 291
See also (SN#): _____

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY98	FY99	FY00	FY01	FY02	FY03
PERSONAL SERVICES	0.0	0.0	0.0	(83.2)	(85.3)	(87.4)
TRAVEL				(3.6)	(3.7)	(3.8)
CONTRACTUAL				(130.8)	(134.1)	(137.5)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	(217.6)	(223.1)	(228.7)

CAPITAL EXPENDITURES						
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CHANGES IN REVENUES ()						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF				(217.6)	(223.1)	(228.7)
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (please specify)						
TOTAL	0.0	0.0	0.0	(217.6)	(223.1)	(228.7)

POSITIONS:

FULL-TIME				-2	-2	-2
PART-TIME						
TEMPORARY						

Estimate of any current year (FY97) cost: \$0.0

ANALYSIS: (Attach a separate page if necessary)

Currently, the Division of Public Health operates three inadequate state public health laboratories in Anchorage, Juneau and Fairbanks and the Medical Examiner's laboratory temporarily located in the Department of Public Safety crime lab. Consolidation of the Juneau lab activities within Anchorage would not only save the state from having to upgrade two laboratories but would also show a savings in operating costs.

The savings would start to occur in FY01 in the following line items.

Personal Services Line 100

With the consolidation of the two laboratories the current staffing level can be reduced by two positions:

PCN 06-1065 Lab Technician I, range 10 GG, PFT Juneau \$46.4

Prepared by: Peter M. Nakamura, MD, MPH
Division: Public Health
Approved by Commissioner: Karen Perdue, Commissioner
Agency: Department of Health & Social Services

Phone: (907) 465-3090
Date: 01/22/97

Date: 1/23/97

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ANALYSIS (cont.):

PCN 06-1436 Admin. Clerk II, range 8, GG, PFT, Juneau \$36.8

Travel Line 200

Travel would be reduced by \$3.5 due to the staff being located in two locations, rather than three, the Chief would have to travel to each laboratory as required under CLIA.

Contractual Line 300

Janitorial Services - \$2.2

Federal Inspections - \$1.5

Subscriptions - \$0.5

Telephones - \$1.9

Public Utilities - \$2.8

Rent - \$0.6

Maintenance and Repair of Equipment - \$3.2

Courier Services - \$2.9

Space Lease - \$115.2

All line items listed above assume a 2.5% per year inflation factor.

FISCAL NOTE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

BILL NO. SB 51

Revision Date: _____
 Title: "An Act giving notice of and approving . . . a lease purchase agreement for a centralized health laboratory facility."
 Sponsor: (S) Rules Committee
 Requestor: (S)HESS

Department Affected: Administration
 BRU: General Services
 Component: Leasing
 COMPONENT SERIAL NO. 81

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
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FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER * CIP receipts						
TOTAL	0.0	0.0	0.0	(75.4)	(75.4)	(75.4)

Estimate of any current year (FY 97) cost: \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.) The bill would authorize financing and construction of a new laboratory facility which would replace two leased locations in Anchorage and Juneau. Lease savings would be expected to begin in FY 2001. The specific leases and current costs are shown on the following page. Costs for the Juneau lease are budgeted in the Department of Health & Social Services. Future years estimated lease savings have been adjusted to reflect probable CPI adjustments. Payments on the new lease purchase facility are not included on this fiscal note. Funds for design, construction, acquisition, and contract compliance are not included in this fiscal note.

Prepared by: Duqan Petty, Director *Duqan Petty*
 Division: General Services

Phone: 465-2250
 Date: _____

Approved by Commissioner: Mark Boyer *Mark Boyer*
 Agency: Department of Administration

Date: 1/24/97

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ANALYSIS: (continued)

Current Public Health Laboratory Leases

Lease #	Location	Property	FY 97 Cost		RSA Amount	Net FY 97 Estimated FY01	
			Sq Ft	/ Year		DOA Budget	DOA Reduction
1517C	Anchorage	CR Lewis Bldg	5,100	73,440	0	73,440	76,044
1517D	Anchorage	CR Lewis Bldg	385	2,079	2,079	0	0
			<u>5,485</u>	<u>75,519</u>	<u>2,079</u>	<u>73,440</u>	<u>76,044</u>

Revision Date: _____ Dept. Affected: Revenue
 Title: Approve Centralized Public Health Lab BRU: Revenue Operations
 Component: Treasury
 Sponsor: (S) RLS
 Requestor: (S) HES COMPONENT SERIAL NO. 121

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS-Lease Payments		2,378.3	2,381.3	2,379.2	2,380.2	2,381.2
TOTAL OPERATING	0.0	2,378.3	2,381.3	2,379.2	2,380.2	2,381.2

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		2,378.3	2,381.3	2,379.2	2,380.2	2,381.2
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	0.0	2,378.3	2,381.3	2,379.2	2,380.2	2,381.2

Estimate of any current year (FY97) cost \$ 0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS:

Authorizes a lease-purchase agreement for up to \$18,440,000 for a centralized public health lab facility with anticipated annual rent of \$2,420,000 and total rent of \$24,130,000. Bond counsel suggests that the sentence beginning in line 6 of the proposed bill be amended to read: "The State Bond Committee is authorized to provide for the issuance of certificates of participation for, and the Department of Administration is authorized to enter into, a lease purchase agreement for a centralized public laboratory facility to be constructed under the lease-purchase agreement and to be operated by the Department of Health and Social Services." The lease payments shown above are projected at current interest rates over ten years for \$18,440,000 and assume rental payments begin on 8-1-98. These payments are within the amounts anticipated in the proposed bill. If, however, interest rates are projected at current rates plus 75 basis points (.75%/year), the rental payments are projected to exceed the amounts anticipated in the proposed bill. In that event, the amount financed and available for project costs would have to be reduced by approximately \$410,000.

Prepared by: Forrest R. Browne Phone: 465-3750
 Division: Treasury Date: January 24, 1997
 Approved by Commissioner: Ross A. Kinney *Ross A. Kinney* Date: January 24, 1997
 Agency: Revenue

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Dated: 2/1/98
 Delivered: 2/1/98

**Sizing Debt Services Schedule
 H&SS Centralized Lab
 Current Interest Rates**

Fiscal Yr	Coupon MYY	Zer Date	Coupon Cpn	Coupon Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Cntgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				439,126.25	439,126.25				439,126.25	
8	99	2/1/99	N	3.800	1,500,000.00	439,126.25	1,939,126.25				1,939,126.25	2,378,252.50
1	2	0	8/1/99			410,626.25	410,626.25				410,626.25	
8	0	2/1/00	N	4.300	1,560,000.00	410,626.25	1,970,626.25				1,970,626.25	2,381,252.50
2	2	1	8/1/00			377,086.25	377,086.25				377,086.25	
8	1	2/1/01	N	4.550	1,625,000.00	377,086.25	2,002,086.25				2,002,086.25	2,379,172.50
3	2	2	8/1/01			340,117.50	340,117.50				340,117.50	
8	2	2/1/02	N	4.650	1,700,000.00	340,117.50	2,040,117.50				2,040,117.50	2,380,235.00
4	2	3	8/1/02			300,592.50	300,592.50				300,592.50	
8	3	2/1/03	N	4.750	1,780,000.00	300,592.50	2,080,592.50				2,080,592.50	2,381,185.00
5	2	4	8/1/03			258,317.50	258,317.50				258,317.50	
8	4	2/1/04	N	4.850	1,865,000.00	258,317.50	2,123,317.50				2,123,317.50	2,381,635.00
6	2	5	8/1/04			213,091.25	213,091.25				213,091.25	
8	5	2/1/05	N	4.950	1,955,000.00	213,091.25	2,168,091.25				2,168,091.25	2,381,182.50
7	2	6	8/1/05			164,705.00	164,705.00				164,705.00	
8	6	2/1/06	N	5.000	2,050,000.00	164,705.00	2,214,705.00				2,214,705.00	2,379,410.00
8	2	7	8/1/06			113,455.00	113,455.00				113,455.00	
8	7	2/1/07	N	5.100	2,150,000.00	113,455.00	2,263,455.00				2,263,455.00	2,376,910.00
9	2	8	8/1/07			58,630.00	58,630.00				58,630.00	
8	8	2/1/08	N	5.200	2,255,000.00	58,630.00	2,313,630.00				2,313,630.00	2,372,260.00
						18,440,000.00	5,351,495.00	23,791,495.00			23,791,495.00	23,791,495.00

True Interest Cost (TIC).....4.9244049
Net Interest Cost (NIC).....4.9381702
Arbitrage Yield Limit (AYL).....4.9244049
Arbitrage Net Interest Cost (ANIC)..... 4.9381702

Prepared by: FORREST R BROWNE, STATE TREAS
 Prepared on: 1/24/97 09:46 8.05 Rpt 14
 Record ID: LAB-1998-P MUNIDB

Dated: 2/1/98
 Delivered: 2/1/98

Sizing Debt Services Schedule
H&SS Centralized Lab
Current Rates +75bp

Fiscal Yr	Coupon M YY	Zer Date	Coupon Cpn	Coupon Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Cntgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				508,971.25	508,971.25				508,971.25	
8	99	2/1/99	N	4.550	1,450,000.00	508,971.25	1,958,971.25				1,958,971.25	2,467,942.50
1	2	0	8/1/99			475,983.75	475,983.75				475,983.75	
8	0	2/1/00	N	5.050	1,515,000.00	475,983.75	1,990,983.75				1,990,983.75	2,466,967.50
2	2	1	8/1/00			437,730.00	437,730.00				437,730.00	
8	1	2/1/01	N	5.300	1,590,000.00	437,730.00	2,027,730.00				2,027,730.00	2,465,460.00
3	2	2	8/1/01			395,595.00	395,595.00				395,595.00	
8	2	2/1/02	N	5.400	1,675,000.00	395,595.00	2,070,595.00				2,070,595.00	2,466,190.00
4	2	3	8/1/02			350,370.00	350,370.00				350,370.00	
8	3	2/1/03	N	5.500	1,765,000.00	350,370.00	2,115,370.00				2,115,370.00	2,465,740.00
5	2	4	8/1/03			301,832.50	301,832.50				301,832.50	
8	4	2/1/04	N	5.600	1,865,000.00	301,832.50	2,166,832.50				2,166,832.50	2,468,665.00
6	2	5	8/1/04			249,612.50	249,612.50				249,612.50	
8	5	2/1/05	N	5.700	1,970,000.00	249,612.50	2,219,612.50				2,219,612.50	2,469,225.00
7	2	6	8/1/05			193,467.50	193,467.50				193,467.50	
8	6	2/1/06	N	5.750	2,080,000.00	193,467.50	2,273,467.50				2,273,467.50	2,468,935.00
8	2	7	8/1/06			133,667.50	133,667.50				133,667.50	
8	7	2/1/07	N	5.850	2,200,000.00	133,667.50	2,333,667.50				2,333,667.50	2,487,335.00
9	2	8	8/1/07			69,317.50	69,317.50				69,317.50	
8	8	2/1/08	N	5.950	2,330,000.00	69,317.50	2,399,317.50				2,399,317.50	2,488,635.00
18,440,000.00						6,233,095.00	24,673,095.00				24,673,095.00	24,673,095.00

True Interest Cost (TIC).....6,677,0480
Net Interest Cost (NIC).....6,692,5841
Arbitrage Yield Limit (AYL).....6,677,0480
Arbitrage Net Interest Cost (ANIC)..... 6,692,5841

Prepared by: FORREST R BROWNE, STATE TREAS
 Prepared on: 1/24/97 10:01 8.05 Rpt 14
 Record ID: LAB-1998-R :MUNIDB

Sizing Debt Services Schedule

H&SS Centralized Lab

+75bp & Reduced Cost

Dated: 2/1/98
Delivered: 2/1/98

Fiscal Yr	Coupon MYY	Zer Date	Coupon Cpn	Rate	Maturing Principal	Periodic Interest	Gross Semi-Annl Dbt Svc	Capitalized Interest	Debt Svc Rsv Int & Prin	Cntgncy Fnd Int & Prin	Net Semi-Annl Dbt Svc	Net Fiscal Dbt Svc
2	99	8/1/98				497,678.75	497,678.75				497,678.75	
8	99	2/1/99	N	4.550	1,415,000.00	497,678.75	1,912,678.75				1,912,678.75	2,410,357.50
1	2	0	8/1/99			465,487.50	465,487.50				465,487.50	
8	0	2/1/00	N	5.050	1,480,000.00	465,487.50	1,945,487.50				1,945,487.50	2,410,975.00
2	2	1	8/1/00			428,117.50	428,117.50				428,117.50	
8	1	2/1/01	N	5.300	1,555,000.00	428,117.50	1,983,117.50				1,983,117.50	2,411,235.00
3	2	2	8/1/01			386,910.00	386,910.00				386,910.00	
8	2	2/1/02	N	5.400	1,640,000.00	386,910.00	2,026,910.00				2,026,910.00	2,413,820.00
4	2	3	8/1/02			342,630.00	342,630.00				342,630.00	
8	3	2/1/03	N	5.500	1,725,000.00	342,630.00	2,067,630.00				2,067,630.00	2,410,260.00
5	2	4	8/1/03			295,192.50	295,192.50				295,192.50	
8	4	2/1/04	N	5.600	1,820,000.00	295,192.50	2,115,192.50				2,115,192.50	2,410,385.00
6	2	5	8/1/04			244,232.50	244,232.50				244,232.50	
8	5	2/1/05	N	5.700	1,925,000.00	244,232.50	2,169,232.50				2,169,232.50	2,413,465.00
7	2	6	8/1/05			189,370.00	189,370.00				189,370.00	
8	6	2/1/06	N	5.750	2,035,000.00	189,370.00	2,224,370.00				2,224,370.00	2,413,740.00
8	2	7	8/1/06			130,863.75	130,863.75				130,863.75	
8	7	2/1/07	N	5.850	2,155,000.00	130,863.75	2,285,863.75				2,285,863.75	2,416,727.50
9	2	8	8/1/07			67,830.00	67,830.00				67,830.00	
8	8	2/1/08	N	5.950	2,280,000.00	67,830.00	2,347,830.00				2,347,830.00	2,415,660.00
						18,030,000.00	6,096,625.00	24,126,625.00			24,126,625.00	24,126,625.00

True Interest Cost (TIC).....5.6771947
 Net Interest Cost (NIC).....5.6927261
 Arbitrage Yield Limit (AYL).....5.6771947
 Arbitrage Net Interest Cost (ANIC)..... 5.6927261

Prepared by: FORREST R BROWNE, STATE TREASURY
 Prepared on: 1/24/97 10:34 8.05 Rpt 14
 Record ID: LAB-1998-U :MUNIDB

1997 LEGISLATIVE SESSION

Revision Date: _____

Dept. Affected: Public Safety

Title: Approve Centralized Public Health Lab

DPS Statewide Support

Component: Scientific Crime Detection Laboratory

Sponsor: Rules Committee

Requestor: S. HESS

COMPONENT SERIAL NO. 0527

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES ()	-0-	-0-	-0-	-0-	-0-	-0-
Code Revenue						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

Estimate of current year (FY 97) impact: \$ _____

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary.)
 No fiscal impact is anticipated to the Department of Public Safety

Prepared By: George Taft, Director

Phone: 269-5687

Division: Scientific Crime Detection Laboratory

Date: 1/29/97

Approved by Commissioner: *Ronald L. Otte*

Date: 1/27/97

Agency: Ronald L. Otte, Dept. of Public Safety

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M E M O R A N D U M

DATE: January 21, 1997

TO: Senator Gary Wilken, Chairman
Senate HESS Committee

FROM: Senator Tim Kelly, Chairman TDK (TB)
Senate Rules Committee

SUBJ: Request For Committee Hearing - SB 51

I would appreciate your scheduling a committee hearing on SB 51, the bill to authorize a lease-purchase arrangement for construction of a centralized public health laboratory. This facility would be located in Anchorage, and be operated by the Department of Health and Social Services.

As you may know, the three existing health labs in Alaska, one each in Juneau, Anchorage, and Fairbanks, suffer from aging and outgrown facilities, and in some cases, OSHA violations. This measure would consolidate the Juneau and Anchorage operations in Anchorage, but not impact the Fairbanks facility.

A similar bill to SB 51 passed the House last session, and was due up on the Senate floor for a final vote at the end, but was never taken up.

A sponsor statement, fiscal note, and other support information will be brought to your office as soon as possible. Department personnel will be available for testimony as well.

If there are questions, please contact Tim Benintendi at 3770.



Official Business

Alaska State Legislature

Senate

Rules Committee

State Capitol
Juneau, AK. 99801-1182

SPONSOR STATEMENT

SENATE BILL 51 - Centralized Health Laboratory

SB 51 would consolidate the state's epidemiology laboratories now located in Juneau and Anchorage, into a new facility centralized in Anchorage. The aged facilities now in operation are not up to prevailing standards of safety and security, posing risks to employees, and potentially affecting the quality and reliability of work performed.

This legislation calls for the state's entry into, and financing of, a lease-purchase agreement for the construction of a new facility. The laboratory would be operated by the Department of Health and Social Services.

Total project costs are not to exceed \$18,440,000. The annual rental obligation would be approximately \$2,420,000, with anticipated eventual payments totaling \$24,130,000. The state would own the facility at the end of the lease.

This legislation passed the House in 1996. A companion bill was introduced this session by the House HESS Committee. Support exists from the Department, and from affected communities. Issues associated with the Fairbanks unit are resolved in that there will be no changes at that facility.

Fiscal notes prepared by HES, DOA, and REV are available for review. If there are questions, please contact Tim Benintendi at 3770.

Anchorage Daily News



Fuller A. Cowell
Publisher

Kent Pollock
Editor

Michael Carey, Editorial Page Editor

Gerald E. Grilly, Publisher, 1984-1993
Katherine Fanning, Editor and Publisher, 1971-1983
Lawrence Fanning, Editor and Publisher, 1967-1971
Founded in 1946 by Norman C. Brown

Health lab

The past has crept into the future

When the state says it needs a new public health laboratory, that isn't just the ravings of a bunch of empire-building bureaucrats run amok.

The Anchorage lab, and its counterparts in Juneau and Fairbanks, is what stands between Alaskans and epidemics of human misery both old and new, from tuberculosis to AIDS.

Here, in an unappealing building on a rundown stretch of Fourth Avenue, some of the most important work in Alaska gets done. Yet, visiting the lab is like a trip back to the early days of statehood.

Look closely at the wall at the top of the stairs and you will see where it was patched after the '64 earthquake. In the dingy hallway sits a refrigerator wearing a vivid orange "biohazard" sticker.

The building's ventilation system from 1961 doesn't meet code. Because the bacteriology unit has no independent air system, lab workers know there is always the possibility that they could be infected by bacteria in the recirculated air.

In fact, according to Dr. Gregory Hayes, director of the state Public Health Laboratories, the federal Health Care Financing Administration closed the TB lab last year because it was unsafe. For three months, the lab had to send possible TB specimens to Seattle for testing.

High on one wall in the lab proper, an air vent is covered with a big piece of cardboard and duct tape to keep drafts from blowing out the flames in lab workers' Bunsen burners.

Twice in December the building's old heating system gave out, leaving the lab at around 40 degrees. Because the test for syphilis has to be conducted at a minimum of 73 degrees, no such tests could be made that day.

Only two people can work at the same time in the closet-sized darkroom for fluorescent microscopy where TB and bacteriological smears are examined. Microscopes sit covered with plastic hoods to protect the expensive equipment from the dust that blows in through the air vent and covers the work table.

According to the state Public Health Laboratories Strategic Plan, numerous studies document "significant health and safety risks caused by improper ventilation and poor layout of lab spaces."

Various improvements to the building are planned if and when the Legislature appropriates the money. Legislators shouldn't bother. There is no good reason to throw money into leased space that is hopelessly inadequate.

Instead, they should give serious consideration to consolidating the Anchorage, Fairbanks and Juneau labs to save unnecessary duplication of equipment and support staff. No longer would specimens have to be sent to three different places for different tests.

Legislators should make it a priority to fund the modern, adequately equipped facility that this state clearly needs. Whether the state builds its own or enters into some form of lease-purchase agreement, it should have been done yesterday — if not before.

The New Public Health Laboratory

1

What We Are Proposing

- ▶ New Public Health Laboratory located in Anchorage
- ▶ To include the Medical Examiner's Laboratory and functions of Juneau and Anchorage laboratories
- ▶ Designed and constructed through debt financing (certificates of participation/lease-purchase financing)

2



The unique role of Public Health Laboratories

➤ To assess and control diseases in partnership with private laboratories:



- Performing advanced tests for infectious agents with public health implications
- Analyzing for unusual, exotic, rare, sporadic, or hard to test diseases
- Confirming private laboratory tests with unusual results or difficulties
- Assisting private laboratories with difficulties in identifying microbial agents
- Collecting data for targeted disease control



The unique role of Public Health Labs (cont.)

➤ Specialized in disease surveillance and recognition of new and re-emerging diseases

Can apply critical state of the art technology for rapid testing of large numbers of specimens quickly in face of an epidemic





Examples of how PH Labs benefit the public

- Epidemic gastroenteritis and contamination of king crab—Dutch Harbor 1991
- Epidemic Gastroenteritis in the Tourism Industry—May 1992
- Tuberculosis outbreaks in rural villages—1994/1995
- Rabies expertise—Pilot Point exposure 1995



Examples of how PH Labs benefit (cont.)

- Perform case management of disease surveillance (including accessibility to indigent high risk populations):

Examples:

Measles Rubella
 Influenzae Pertussis
 Diphtheria Salmonella/Shigella
 Hepatitis B

Sexually Transmitted Diseases

Syphilis Chlamydia
 HIV Gonorrhea





Public Health Labs: Mission Statement

- ▶ Essential component of state & national public health systems with a different mission than private laboratories.
- ▶ Provide scientific and technical information for disease prevention.
- ▶ First line of defense in recognizing and controlling spread of communicable diseases.



Public Health Labs: Mission Statement (cont.)

- ▶ Accomplish core public health functions and responsibilities in partnership with private and federal laboratories, including:
 - disease control & prevention programs
 - maternal and child health programs
 - environmental health programs
 - epidemiological investigations
 - laboratory quality assurance in Alaska
 - Technology development
 - Diagnostic product evaluation
 - Data collection
 - Laboratory expertise
 - National surveillance link

Lab Functions: Don't Privatize When...

- Services are essential if government or legal barriers apply
- Tasks are uncertain, subject to change
- Value of output is hard to measure
- Public Laboratory has specialized, hard-to-transfer expertise
- Process is as important as the result

But Do Privatize When...

- Performance is measurable
- Results are more important than process
- Outputs are easy to measure
- Problem labs can be readily replaced
- Activity is short-term or intermittent
- Private sector has specialized expertise
- Privatized activity is successful elsewhere

Why must we build a new laboratory?

Solves

- ◆ Existing: At the State and Bureau Public Health Labs—*immediate health and safety threat to employees and the public.*
- ◆ The State Medical Examiner—*A permanent home must be found; temporarily occupying space at Dept. of Public Safety Crime Detection Laboratory.*



Why must we build a new laboratory? (cont.)

► Saves

- ◆ existing leased space would require substantial unrecoverable investment
 - ◆ staff functions are now duplicated at multiple locations
- **Maintains an essential public service more cheaply and more efficiently**
- ◆ Specimens now must be sent to multiple locations



Why must we build a new laboratory? (cont.)

- New technologies: a modern, well-designed, adaptable, safe laboratory is a necessity for the demands of the 21st Century.
- Examples:
 - ◆ DNA testing
 - ◆ Newly emergent diseases

13



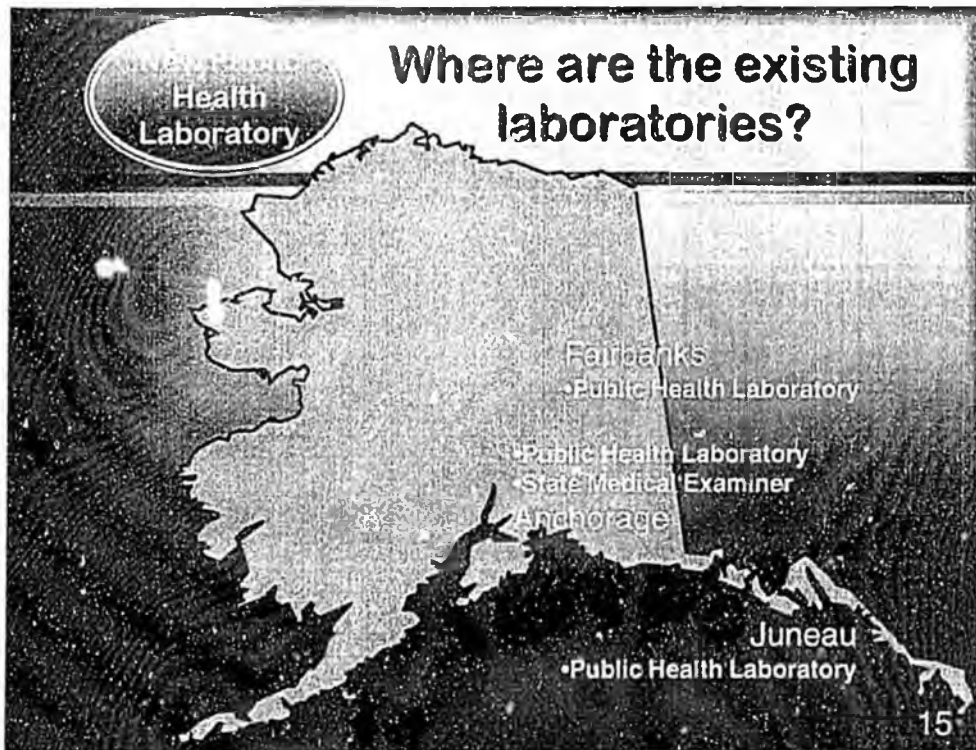
What problems will we solve?

- **Current** (services are inadequate)
- **In leased space or in temporary space**
- **Not designed for current operations** (two labs in office spaces)
- **Need work** (laboratories are inadequate and require significant capital investment to maintain)
- **Expensive** (we can't afford four separate laboratories)

14



Where are the existing laboratories?



Existing Laboratory Conditions

Anchorage Public Health Lab: Leased space; designed as laboratory; extensive upgrades.

Medical Examiner Lab: Leased space; designed as laboratory; testing moved to Anchorage because of safety hazards.

Fairbanks Public Health Lab: Leased space; supports current operations but old and inflexible interior space incapable of absorbing additional activities.

Medical Examiner Lab: Using borrowed space at Dept. of Public Safety's Crime Detection Laboratory in Anchorage. Space is inadequate and needed by Crime Detection Lab.



DHSS has long history of analyzing the problems

- We know what the problems are
- We know how to solve them
- We've studied the problems
- We've taken a "Good Government" approach
 - engaged in long range planning
 - analyzed needs and reviewed many alternatives
 - developed a comprehensive, workable solution



There have been many studies and plans



- 1971 (October)
 - 1980 (January)
 - 1981
 - 1983 (March)
 - 1983 (May)
 - 1983 (December)
 - 1984 (March)
 - 1984 (August)
 - 1985 (February)
 - 1985 (February)
 - 1995 (March)
- *Construction of Alaska Public Health Laboratory, Alaska Department of Health, Evaluation of the Public Health Laboratory Facility, Alaska Division of Public & Occupational Health, Contract for Design (Phase I)*
 - *Alaska Public Health Laboratory: Background Information for Feasibility Study (Wary International and Cooper & Lybrand)*
 - *State of Alaska Public Health Laboratories Assessment, Architecture for Health & Occupational*
 - *Anchorage Public Health Lab Seismic Safety Inspection, Draft, Memorandum to Public Facilities (Field, Roger D.)*
 - *State of Alaska Public Health Laboratories Strategic Plan Final Report, Vivint, Cooper & Lybrand*
 - *Public Health Laboratory-Anchorage, Preliminary Program of Requirements for Renovations Report (McClintock & Co., Inc.)*
 - *Public Health Laboratory-Anchorage, Phase II Interim Renovations Report, Mc Health Hazard Evaluation Report, HETA 91-2269-2489, Supplemental Regional National Institute for Occupational Safety and Health (NIOSH)*
 - *State of Alaska Public Health Laboratories Strategic Plan (with special projects)*
 - *Public Health Laboratories Strategic Plan (with special projects)*
 - *Proposing a New Public Health Laboratory*
 - *Centralized Public Health Laboratories, Site Selection Considerations and Allocation (with Model, Final Draft)*



New lab would save money & solve problems

- Solves problem of inadequate Public Health Labs in Juneau and Anchorage
- Solves problem of permanent housing for Medical Examiner's Lab
- Increases operational efficiency
- Saves operating costs



The status quo cannot continue

- We can't afford to maintain the current arrangement
- We don't need four separate labs
- The current arrangement for the Medical Examiner is untenable—we must find a permanent space

**SCS HB 529
(HES)—
Financing
almost
approved last
year**



**Legislature Almost
Approved the New Lab**

➤ **Authorizing legislation nearly passed the Legislature**

- ◆ Combine Anchorage & Juneau Public Health labs and Medical Examiner into new lab in Anchorage
- ◆ Fairbanks Public Health Lab to remain operating





Operating Cost Savings (Fiscal Note)

First Year (FY01) Operating Cost Savings (\$1,000's)

Dept. of Health and Social Services	217.6
Savings in personal svcs., Juneau Lab lease, misc.	
Dept. of Administration	75.4
Savings in Anchorage Lab lease	
Total	293.0



Principal and Financing Costs

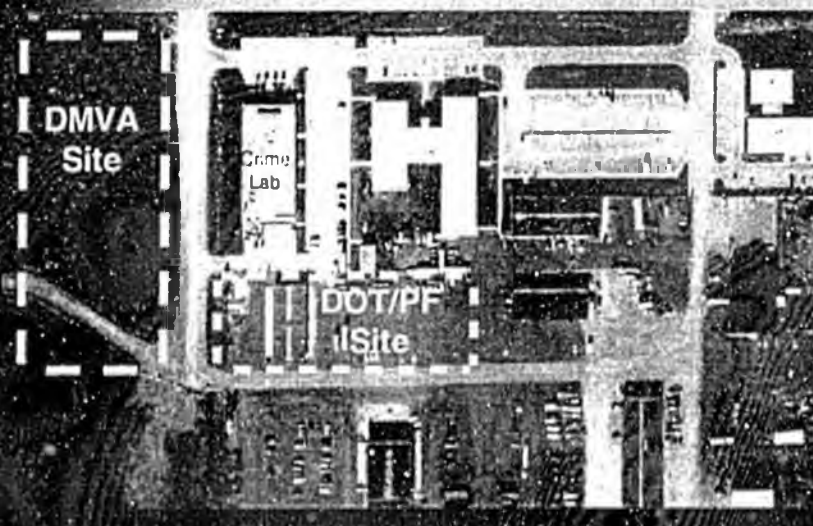


	<i>Principal Costs</i>	<i>Annual Debt Service (Rent)</i>	<i>Total Debt Service (Rent)</i>
1997 Estimate of Costs (10 year financing)			
New Laboratory <i>Adjusted for inflation and Medical Examiner's assumption of Coronar responsibilities</i>	\$18,440,000	\$2,420,000	\$24,130,000

Site Location

- Medical Examiner needs to be near Public Safety Crime Detection Lab (Crime Lab)
- Several alternatives for state-owned land are being considered immediately adjacent to the Crime Lab

Proposed Site Locations



“Alaska’s State Public Health Laboratories (ASPHL): A Crisis Situation”

ROLE OF ALASKA’S PUBLIC HEALTH SYSTEM

The health of individuals begins with a safe and healthy community in a safe and healthy environment.⁹ Alaska’s unique environment, demographics, and seasonal tourist industry continually challenges our public health system. Alaska needs to retain a strong state public health system that is based on prevention and extends well beyond individual medical care to the entire population.⁹ Keep in mind our biggest gains in health status have come from population based programs targeting sanitation, safe drinking water, tobacco prevention, immunization, and the control of infectious diseases.³

Misperceptions about public health are common among the general population. One of the most common misperceptions is that public health’s major role is to provide state-subsidized health care to the poor and indigent. Clearly this is not public health’s major role. Public health, is based on the premise that the economic, social, and cultural development of any community is dependent on the health and safety of its citizens. It is the commitment by this State at every level, to assure safe and healthy communities to all citizens, so that Alaskans can devote their energies to fulfilling their dreams. This is a responsibility of the State which cannot be delegated, even in part.^{1,4} This mission is addressed in Alaska’s Constitution, Article VII, Section 4: “.....the legislature shall provide for the promotion and protection of public health.”

The essential activities of the public health system are assessment, policy development, and assurance (Table 1).^{2,4,6} It is important to note that Alaska’s State Public Health Laboratory (ASPHL) is critical to each one of these activities.⁴

Table 1⁴Assessment

- Assess the health needs of the community.
- Investigate the occurrence of health effects and health hazards in the community.
- Analyze the determinants of identified health needs.

Policy Development

- Advocate for public health, build constituencies and identify resources in the community.
- Set priorities among health needs.
- Develop plans and policies to address priority health needs.

Assurance

- Manage resources and develop organizational structure.
- Implement programs.
- Evaluate programs and provide quality assurance.
- Inform and educate the public.

ROLE OF ALASKA'S PUBLIC HEALTH LABORATORIES

The ASPHL is an essential component of the State and National public health infrastructure and clearly operates with a different mission and purpose than do private sector laboratories. Nor do they perform identical types of testing when compared to clinical laboratories. The ASPHL provides a broad range of disease control, preventive health care, environmental monitoring, applied research and laboratory improvement services. They generate information that serves the needs of epidemiologists, regulators, policy makers, the medical community and the public, the ultimate beneficiary. State public health programs, depend on the high quality data which is produced by the ASPHL. Aside from daily services

performed to support State programs, the ASPHL maintains the expertise and flexibility to investigate outbreaks, conduct surveillance activities and provide support as part of the State's disaster preparedness plan for response to emergencies. The reemergence of infectious diseases and drug resistance, combined with the increase in interstate and international travel make the need for an effective national public health laboratory network greater today than ever before. The ASPHL represents a first line of defense for Alaskans in the rapid recognition and prevention of communicable diseases and is a critical component of the national network.^{5, 8}

Integral cooperation exists between the public health laboratory and the State's epidemiologists in investigations, surveillance, surveys and control activities. The laboratory performs tests that are clearly not a part of individual medical care such as the testing of contacts or family members. Frequently there is a need to determine the health status of well persons through screening studies.¹⁰ Such testing is essential in the control of diseases. Tests performed in the ASPHL comprise disease assessment, which help protect the community by preventing and controlling disease. Tests performed are done without compensation as the motive but as "advocacy for the public's health". The cost of the test in the public health laboratory pays for more than a test result. It provides health benefits to the local population and the nation as a whole.⁴ The ASPHL performs population based screening for conditions of public health concern such as human immunodeficiency virus and sexually transmitted diseases (STD) such as gonorrhea, chlamydia, and syphilis. The ASPHL also provides specialized testing for low-incidence, high-risk diseases such as tuberculosis and rabies. Testing performed for disease agents such as protozoa, enteric bacteria, meningococci, STD, influenzae viruses and other respiratory diseases is focused on determining epidemiologic shifts and newly emerging pathogens.⁹ This is accomplished through analysis of the lab's own primary isolates and those referred to them by private laboratories throughout the state. Epidemiologists use the ASPHL's data to

determine "sentinel events" that would indicate an emerging problem.⁹ Examples of this include hantavirus, antibiotic-resistant mycobacteria, *Escherichia coli* 0157:H7 and cryptosporidiosis. Additionally the ASPHL provides specialized reference services for other laboratories in the State such as antibiotic susceptibility testing and typing of isolates contributing not only to patient care but providing tools for disease surveillance. The ASPHL also tests foods associated with outbreak investigations which is clearly not a procedure undertaken by clinical laboratories. Another major responsibility of the ASPHL is laboratory improvement within the State. This is accomplished by providing training, technical assistance, and proficiency testing to improve the quality of work performed by other laboratories in the state. Lastly, the ASPHL conducts applied research to develop or evaluate new laboratory methods in order to aid epidemiologic investigations or for assessment of public health services.⁹ Unlike many states, the ASPHL do not provide newborn screening, blood-lead tests, toxicology screens, or significant environmental testing.

BACKGROUND AND CURRENT STATUS OF THE STATE'S PUBLIC HEALTH LABORATORIES

There has been a Public Health Laboratory in Alaska since the late 1930's when the first facility was established in Juneau. Two other laboratories, in Anchorage and Fairbanks, were established in 1939 and 1948 respectively as the populations grew. The primary purpose of these facilities at the time was to provide direct clinical support to local physicians and analytical support to sanitarians, veterinarians, and other environmental professionals.

Today, all three laboratories operate under the State Division of Public Health. Each lab represents geographically diverse and distant populations, but populations that share a much greater accessibility than when the ASPHL were

first established. Since 1985, thirteen studies have assessed the deficiencies and deteriorating state of the ASPHL. The buildings that house the three laboratories are in leased space that is technically or functionally inadequate to support the types of testing conducted there. Two of the buildings (Anchorage and Juneau) are in urgent need of repair and are unable to meet the demands of changing analytical technologies. In addition, the Anchorage and Juneau buildings, which were originally designed as office buildings, face serious mechanical system and structural inadequacies for conducting laboratory testing and analysis. The Fairbanks laboratory is housed in a dated facility on the University of Alaska campus. All of the studies document significant health and safety risks caused by improper ventilation and poor layout of lab spaces. In addition, lease expenses and the increasing cost of renovating leased space to meet minimal safety standards continually strain the resources of the Department of Health and Social Services. Serious risks to the State exist if the status quo of the ASPHL continues.⁷

The following issues affect the cost-effectiveness and level of service of the ASPHL:⁷

- Health and safety risks caused by improper ventilation and other facility limitations.
- Leased facilities with limited maintenance or repair resources
- Duplication and redundancy in facilities
- Limited space for growth or addition of new technologies
- Procedural inefficiencies caused by poor facility layouts
- Duplication and redundancy in staffing
- Duplication and redundancy in administrative tasks
- Unwieldy and time consuming transfer of specimens between sites
- Reduced ability to communicate, coordinate, and train; duplicated supervision; diminished team-building capabilities

- Slow turnaround time for test results.

FUTURE OF THE STATE'S PUBLIC HEALTH LABORATORIES

As emphasis on prevention increases, so will the need for preventive services, it is not possible to know what research will bring to the health care system and to disease prevention in the future; also it is not possible to predict the services that public health laboratories will need to provide. Microorganisms continue to evolve and sometimes offer surprises. The ASPHL will be expected to detect promptly and confirm an ever-expanded array of pathogens as they are discovered in the future. HIV will not be the last infectious disease. There will continue to be other new, as well as re-emerging, infectious diseases in the United States, reflecting new discoveries (pneumonia due to chlamydia) and changes in the environment (Lyme disease), technology (Legionnaires Disease), personal behavior (herpes 2, human papilloma virus, and other sexually transmitted diseases), age of population (pneumonia, influenza), food production practices (salmonella, small particle viruses), poverty (tuberculosis), and the microbial world (antibiotic resistance, virulence). Increased travel, immigration, and translocation of populations increasingly expose citizens to malaria, dengue, parasitic diseases, hemorrhagic fevers, and enteric diseases, such as cholera. In all these instances, the first point of contact and often the only source of expertise is the public health laboratory.⁴

It is obvious that public health laboratory services are essential for the proper functioning of the public health system in the State of Alaska. There will continue to be a need for core public health functions and for expertise of personnel trained in public health laboratory work. Private laboratories cannot be expected to provide equivalent services.⁴

Smart management dictates that a state public health laboratory meet the standards of economic and administrative efficiency while providing a safe and efficient public health service. Those standards can no longer be met through the independent operation of three separate laboratories operating in facilities that have outgrown their utility.⁷ Without adequate facilities, space and equipment, the types and volume of tests offered by the laboratory are reduced, the remaining staff are overworked and overcrowded, morale drops, user confidence erodes, and the downward spiral of the laboratories' capabilities, reputation, and public health relevance accelerates. This is hardly a recipe for success.⁴

It is crucial for Alaska to have a public health laboratory that will gain the confidence of the medical profession and our citizens while assuring that highly technical and skilled staff can be recruited and appropriately supported in meeting all present and future demands.

A new facility to house the ASPHL is desperately needed in order for the laboratory to continue meeting the goals and objectives of their public health mission. Our major concern is in keeping intact, and indeed strengthening, the public health laboratory system that is so crucial for carrying out the basic functions of public health in Alaska.³

The future of the public health laboratory depends heavily on the ability of health department personnel, appointed and elected officials, the medical community and the general public to understand and appreciate the meaning of public health and the functions of the public health laboratory.⁴ Those who believe in the role of disease assessment and disease prevention need to advocate for a new Public Health Laboratory facility that pays for itself, integrates and adequately houses departmental laboratory functions, allows for future growth and provides for a satisfactory level of services at a lower cost.⁴

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Chief, Section of Laboratories
Dept. of Health & Social Services

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PRIVATIZATION OF PUBLIC HEALTH LABORATORY TESTING?

Even the most ardent supporters of general government privatization are reticent to argue for the privatizing of the public health laboratory function. All fifty states and U.S. territories have public health laboratories and none have been privatized. This is because the services the public health laboratories provide are inherently public. The Alaska Public Health Laboratories (APHL) do not merely perform tests and provide results to health care providers as the private labs do; they are an essential component of public health policy determination. The following criteria are commonly used by state governments to determine whether privatization is appropriate for a given function:

Do Not Privatize If

- Service is a core function of government (policy making or police powers, for example) or legal barriers apply
- Tasks are uncertain and prone to revision
- Value of output is hard to measure
- Government provider is most knowledgeable about accomplishing the task, and transfer of such expertise would be difficult
- Process is as important as the result

Frequently, and particularly in pursuing a finding that is epidemiologically significant, the public health laboratory will undertake tasks that go well beyond what one could expect a private contractor to do and staff are specifically trained for public health investigations. With this in mind, none of the criterion in the list above may be satisfied in the case of the APHL. A further test is to look at criteria in favor of privatization.

Do Privatize If

- Specific performance expectations can be set forth
- Results are more important than the process
- Outputs are easy to measure
- Problem providers can be readily replaced
- Activity is short-term or intermittent in nature
- Private sector has specialized expertise or skills that give operational efficiency and effectiveness
- Activity has been successfully privatized in other states

If the responsibilities of the public health laboratories could all be distilled into performance of tests and transmitting the results to health care providers, then most of the criteria in the list above would be met. Once we understand the policy making and epidemiological functions to be a core responsibility of the public health laboratories, however, these criteria are no longer satisfied in the case of the APHL.

Through this analysis, it appears that the APHL system needs to remain under the management of the government. Other arguments against privatization make this conclusion even more compelling. Discussions with private laboratory providers reveal that assuming total privatization would possibly shift jobs from Alaska to the Lower 48 ---- the private laboratories that could compete for the highly technical work now performed by the APHL would simply add the work to their current workload that is already sent out-of-state. Thus, private labs may add limited clerical support to their staffs to facilitate tracking and delivery of specimens, but additional in-state technical personnel would not be necessary. Contrary to the commonly held perception that privatization increases local employment, APHL privatization would do very little to stimulate local economies.

Diseases and conditions currently reportable to the Alaska Division of Public Health

Alaska Department of Health and Social Services

Laboratories

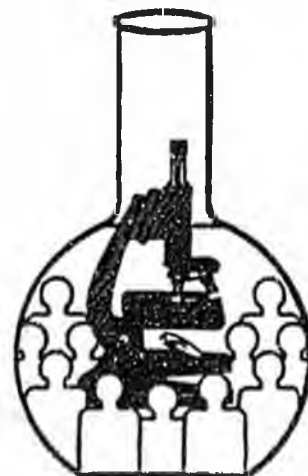
Laboratories must report the following diseases:

Amebiasis
Anthrax
Blood lead $\geq 10 \mu\text{g/dL}$
Botulism
Brucellosis
Campylobacteriosis
Chlamydiosis
Cryptosporidiosis
Cholera
Diphtheria
Echinococcosis
Disease due to Escherichia coli 0157:H7
Giardiasis
Gonorrhea
Hepatitis (A, B or C)
Influenza
Legionnaire's disease
Leprosy
Malaria
Meningitis (viral and bacterial)

Mumps
Pertussis
Plague
Poliomyelitis
Psittacosis
Rabies
Rubella
Rubeola
Salmonellosis
Shigellosis
Smallpox
Syphilis
Tetanus
Trichinosis
Tuberculosis
Tularemia
Typhus
Yellow fever
Yersiniosis
Invasive disease due to Neisseria meningitidis

To report a case

Reports may be made by dialing 561-4234 from the Anchorage area or 1-800-478-1700 from outside the Anchorage area. A tape recorder, which operates 24 hours a day, will record your report.



Health Care Providers

Health care providers are responsible for reporting all of the above with the exception of: Escherichia coli O157:H7, influenza, meningitis, and typhus.

In addition health care providers must report:

AIDS
Encephalitis
Lyme disease
Paralytic shellfish poisoning
Reye syndrome
Rheumatic fever
Haemophilus influenzae type B meningitis
Meningitis due to Neisseria meningitidis
Typhoid
Birth defects (among children <5 years old)

Cancer (except basal cell and squamous cell carcinoma of the skin)
Firearm injuries
Epidemics or outbreaks of an unusual number of cases of any infectious disease.
Severe reactions to any vaccine.
Diseases which are known or suspected to be related to environmental exposure to toxic-hazardous material.
Diseases which may possibly arise as a result of a worker's occupation.

Public Health Emergencies

Suspected cases of the following are *public health emergencies*.

Anthrax
Botulism
Diphtheria
Meningococcal meningitis
Paralytic shellfish poisoning
Poliomyelitis
Rabies
Rubella
Rubeola
Smallpox
Tetanus

Call 269-8000 (if outside the Anchorage area, call collect) immediately. After hours call 1-800-478-0084.

More likely, as illustrated in panel B of figure 16-1, the lease structure will have the lessor assign interest in the lease payments to one or more investors who put up the principal needed by the local government lessee in exchange for assignment of the right to receive the payments under the lease. In the case of the lease purchase, the interest component of these payments is tax-exempt. This characteristic makes ownership of the lease obligation most attractive to investors that benefit by tax-exemption, the same as is true with tax-exempt bonds.

The assignment of the lessor's rights, title, and interest in the lease to the investor may be direct or through a trust agreement. In the direct form, the investor receives payments directly from the government. This arrangement may be facilitated by employing a transfer agent who invoices the government, forwards payments to investors, and carries out other administrative tasks.

The trust agreement version, as is depicted in panel C of figure 16-1, involves the creation of a trust and the assignment of the lease payments to a trustee. In a trust arrangement, the lessor acts as trustor and enters into a trust agreement, with the designated lease or leases going to designated investors as beneficiaries. The trustee is usually a trust company, which oversees the operation of the lease and represents the interests of investors that hold certificates of participation. The certificate of participation has become a very important financing structure and we will return to how it has been used to broaden the market for leases shortly.

Panel D of figure 16-1 illustrates another version of lease structure, in which the lessor itself is a governmental entity, such as a school building authority. The government entity-lessor may do the financing and act as agent for construction and acquisition of the equipment or structure and lease it to the lessee government. The lessor sells to investors its own debt obligations, which are secured on the future stream of payments by the lessee. These obligations are typically referred to as "lease-revenue debt" since the debt is secured only on the revenues from the lease payments. These structures are frequently employed to assist governments that have insufficient borrowing powers; the lessor acts merely as a conduit to the financial markets for the lessee. Since the issuer of the debt and the underlying obligor and user of the facility are both governments, the interest payments are tax-exempt. The lease-rental obligation is a very common device at the state level in particular and is used to finance school construction at the local level in several states.

Certificates of Participation

The participation of many investors in the lease transaction allows the transformation of what would otherwise be a straightforward financing instrument, executed between a lessee and a lessor, into a marketable security. This means that the lease enjoys much greater access to funds and greater liquidity for investors. In a certificate of participation (COP) financing, title to the leased asset is assigned by the lessor to a trustee that holds it for the benefit of the investors, the certificate holders.⁷ The idea behind the COP-based borrowing is to make the certificates marketable and transferable, generally behaving like conventional debt instru-

ments. Other parties participate in the COP lease, which makes it look similar to debt financing, including underwriters, underwriters' counsel, registrar, and bond counsel. These parties play essentially the same roles in accessing the tax-exempt capital markets as they would play in assisting a governmental entity to undertake a conventional debt financing.

Not surprisingly, when COP-backed debt is used (which typically occurs for capital needs of \$5 million and above), the financing costs, while similar to those for conventional bond issues, usually are higher. Three major factors account for the higher costs associated with COP financings. The first is that the issuance costs (that is, the costs of preparing documents, designing the transaction and executing the sale) associated with a certificate of participation financing are similar to those of bond financing. Thus, the COP presents no economies here that may be available under other tax-exempt leases.

A second factor is the higher interest costs of the lease-purchase financing than, for example, those on bonds backed by a "full faith and credit" general-obligation pledge. This interest differential reflects the added risks of nonappropriation in a lease-purchase financing structure. The differential depends on the given credit ratings and market factors and has typically ranged from one-tenth of a percentage point to one full percentage point above the lessee's general obligation interest costs.⁸

A third factor is the requirement of debt-service reserve funds. Debt-service reserve funds, which typically equal 10 percent of the total principal borrowed, are not required for general-obligation borrowings; the risks present in COP financings, however, often do require debt-service reserve funds. As a result, issuers must borrow more funds than are needed for the capital acquisition—the additional amount being the required debt-service reserve fund. Thus, even if the interest rate charged on the COP financing compares favorably with the amount that would otherwise be charged on general-obligation debt, the state and local government borrower will be paying for financing on a larger principal because of the debt-service reserve fund.

SERVICE CONTRACTS

Leasing arrangements may be used by governments simply to acquire use of a capital item for a limited period of time or as a method of purchasing such an item over a period of years. In cases where government entities wish to acquire services as opposed to just the item itself, another type of arrangement is a candidate for consideration—the service contract. A service contract may be defined as follows: A legal contract between a private company and a governmental entity that requires the private company, in return for a specified fee, to provide certain services that would otherwise be provided by the governmental entity.

Service contracts can cover the spectrum of facility development, ranging from short-term operation of a facility by a private firm to complete private design, construction, operation, ownership, and financing of a public works facility. Or a service contract may entail the establishment of long-term relationships