

SB

74

<TARGET><BILL>SB 74</BILL><SUBJECT>SB
74</SUBJECT><COMM>HFIN28</COMM></TARGET>

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 74
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB074-DOA-FAC-01-21-14
Title: UNIVERSITY OF ALASKA BUILDING FUND
Sponsor: KELLY
Requester: House Finance

Department: Department of Administration
Appropriation: General Services
Allocation: Facilities
OMB Component Number: 2429

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0

Estimated CAPITAL (FY2015) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? no
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Updated for 2nd session to accurately reflect FY2015 and out year costs

Prepared By:	Tom Mayer, Director	Phone:	(907)465-5677
Division:	General Services	Date:	10/15/2013 11:00 AM
Approved By:	Curtis Thayer, Acting Commissioner	Date:	01/10/14
Agency:	Department of Administration		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB 74

Analysis

This legislation establishes the University of Alaska Building fund. Establishing this fund will have no fiscal impact of the Division of General Services.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 74
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB074-DOR-TRS-01-21-14
Title: UNIVERSITY OF ALASKA BUILDING FUND
Sponsor: KELLY
Requester: (H) FIN

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Treasury Division
OMB Component Number: 121

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0

Estimated CAPITAL (FY2015) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Updated for 2014 session.

Prepared By:	Pamela Leary	Phone:	(907)465-2350
Division:	Treasury	Date:	12/23/2013 02:27 PM
Approved By:	Angela Rodell, Commissioner	Date:	12/23/13
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB074

Analysis

This bill would create the University of Alaska Building fund in the general fund. It is anticipated that this fund would be one of the many non-segregated funds that are invested alongside other funds in the GeFONSI and therefore, no additional costs would be incurred by Treasury.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: SB 74
Fiscal Note Number: _____
() Publish Date: _____

Identifier: SB74-UA-SYSBRA-1-21-14
Title: UNIVERSITY OF ALASKA BUILDING FUND
Sponsor: KELLY
Requester: House Finance

Department: University of Alaska
Appropriation: University of Alaska
Allocation: Budget Reductions/Additions - Systemwide
OMB Component Number: 1296

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0

Estimated CAPITAL (FY2015) cost: 0.0

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency?
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Updated for 2nd session to accurately reflect FY2015 and out year costs

Prepared By: <u>Michelle Rizk</u>	Phone: <u>(907)450-8187</u>
Division: <u>University of Alaska</u>	Date: <u>01/22/2014 10:30 AM</u>
Approved By: <u>Michelle Rizk</u>	Date: <u>01/22/14</u>
Agency: <u>University of Alaska</u>	

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. SB74

Analysis

Senate Bill 74 creates the University Building Fund (UBF) as a special account in the general fund. It is modeled after the Alaska Public Building Fund, which has been operated by the Department of Administration since 2000.

In addition to legislative appropriations, the UBF may contain funds deposited by a campus on behalf of its facilities as well as funds from donors; capital balances when new facilities are completed; and money collected as rent from the departments or programs that occupy space in university buildings.

Any administrative costs associated with managing the UBF will be covered through existing University resources.

Alaska State Legislature

Senator Pete Kelly



Senate District B

Sponsor Statement for SB 74

The University of Alaska maintains over 400 buildings worth more than \$2.5 billion. These facilities comprise almost 40% of the square footage owned by the State of Alaska, and preserving the state's substantial investment in these structures is imperative. More than half of these buildings are over 30 years old, and inadequate appropriations for the scheduled replacement of worn-out building components such as roofs, electrical equipment, and heating and ventilation systems have left many of them with substantial deferred maintenance.

Senate Bill 74 creates the University Building Fund (UBF) as a special account in the general fund. It is modeled after the Alaska Public Building Fund, which has been operated successfully by the Department of Administration since 2000.

In addition to legislative appropriations, the UBF may contain funds deposited by a campus on behalf of its facilities as well as funds from donors; capital balances when new facilities are completed; and money collected as rent from the departments or programs that occupy space in university buildings.

The University Building Fund will accomplish the objective of making University departments cost-conscious about the space they occupy, because they have to pay for it in their individual budgets. It also allows the university to seek private funds for maintenance and operations of their buildings.

Collecting rent from tenants is an important feature of the UBF. By charging rent to the occupants, the university will incentivize better space management and utilization practices. Charging for space will:

- encourage improved space utilization
- empower departments to manage space for the highest and best use
- encourage a cultural change from entitlement thinking to maximizing use of every square foot
- encourage energy efficiency
- encourage managers to relinquish poorly utilized space

Experience at other universities indicates that charging for space improves internal discipline, leading to improvements in space utilization and efficiencies in operation.

Alaska State Legislature

Senator Pete Kelly



Senate District B

Sectional Analysis for SB 74

Section 1. Requires the University Board of Regents to designate buildings for purposes of using money from the fund established in section 2.

Section 2. Establishes the University of Alaska building fund as a special account in the general fund for the purpose of paying the costs of use, management, operation, maintenance, and depreciation of space in specified building owned by the University.

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
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MEMORANDUM

April 5, 2013

SUBJECT: Dedicated fund question -- SB 74 (Work Order No. 28-LS0345\U)

TO: Senator Pete Kelly
Attn: Heather Shadduck

FROM: Jean M. Mischel
Legislative Counsel 

You have asked whether the above-referenced bill creates a dedicated fund and whether it is necessary to include the statement that it does not create a dedicated fund. In my opinion, the bill does not create a dedicated fund. The dedicated fund provision, article IX, sec. 7 directs in part that:

The proceeds of any state tax or license shall not be dedicated to any special purpose, except as provided in section 15 of this article or when required by the federal government for state participation in federal programs. . . .

The University of Alaska building fund was established as an account in the state's general fund in section 2 of the bill. It is subject to the constraints otherwise applicable to the general fund and under the Executive Budget Act, AS 37.07. The mechanism of the building fund was carefully drafted and modeled on the executive branch building fund established in AS 37.05.570, to assure, to the greatest extent possible consistent with the constraints imposed by article IX, sec. 7, that money deposited into the fund would be available only for the building fund and its authorized uses for the life of a project. However, deposits to and expenses paid from the building fund require a legislative appropriation. As you know, article IX, sec. 13 of the Constitution of the State of Alaska limits the withdrawal of money from the treasury to those appropriations made by law. Additionally, the bill states that "nothing in this section dedicates money [deposited] for a specific purpose" at page 3, lines 15 - 17 of the bill.

JMM:ljw
13-249.ljw

Board of Regents' Office
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202 Butrovich Building
910 Yukon Drive
P.O. Box 755300
Fairbanks, AK 99775-5300

March 19, 2013

Senator Pete Kelly
State Capital Room 516
Juneau, AK 99801

Dear Senator Kelly:

The Board of Regents supports Senate Bill 74 creating the University Building Fund (UBF), modeled after the Alaska Public Building Fund (APBF), which has been operated successfully by the Department of Administration since 2000. The APBF has accomplished its objective of making agencies cost-conscious about the space they occupy, and has functioned as a mechanism to preserve facility assets and extend their useful life. We welcome the opportunity to apply this concept to university assets.

The University of Alaska maintains over 400 buildings with a current replacement value of more than \$3.5 billion. These facilities comprise almost 40% of the square footage owned by the State of Alaska, and preserving the state's substantial investment in these structures has been a priority for the Board of Regents, particularly as the backlog of deferred maintenance and renewal began increasing as the buildings aged. More than half of university buildings are over 30 years old. Inadequate appropriations for the scheduled replacement of worn-out building components such as roofs, electrical equipment, and heating and ventilation systems have left many of them with substantial maintenance backlog. Building components often get replaced only when they fail, causing collateral damage and dislocation for people and programs. The university's backlog of deferred maintenance and renewal has grown to more than \$1.0 billion, and it increases every year. The Board of Regents recognizes that something must change about the processes used to manage both building stewardship and space utilization.

Creation of the UBF provides a mechanism to charge departments for space they occupy. By gathering and analyzing cost and utilization data the university can implement a rent charge to the occupants of covered buildings, providing incentive for improved space management and utilization practices. Charging for space will make it clear that space has a significant budgetary impact on each campus, and in addition will:

- encourage improved space utilization rates, for both hours per week and seat occupancy
- empower departments to manage space for the highest and best use

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Senator Kelly
Senate Bill 74

- **encourage a cultural change from entitlement thinking to maximizing use of every square foot**
- **encourage energy efficiency**
- **encourage relinquishment of space with a low utilization rate or as program needs change**

The Board of Regents appreciates your sponsorship of this legislation.

Sincerely,



Patricia A. Jacobson, Chair
Board of Regents

cc: Board of Regents
President Patrick Gamble, University of Alaska

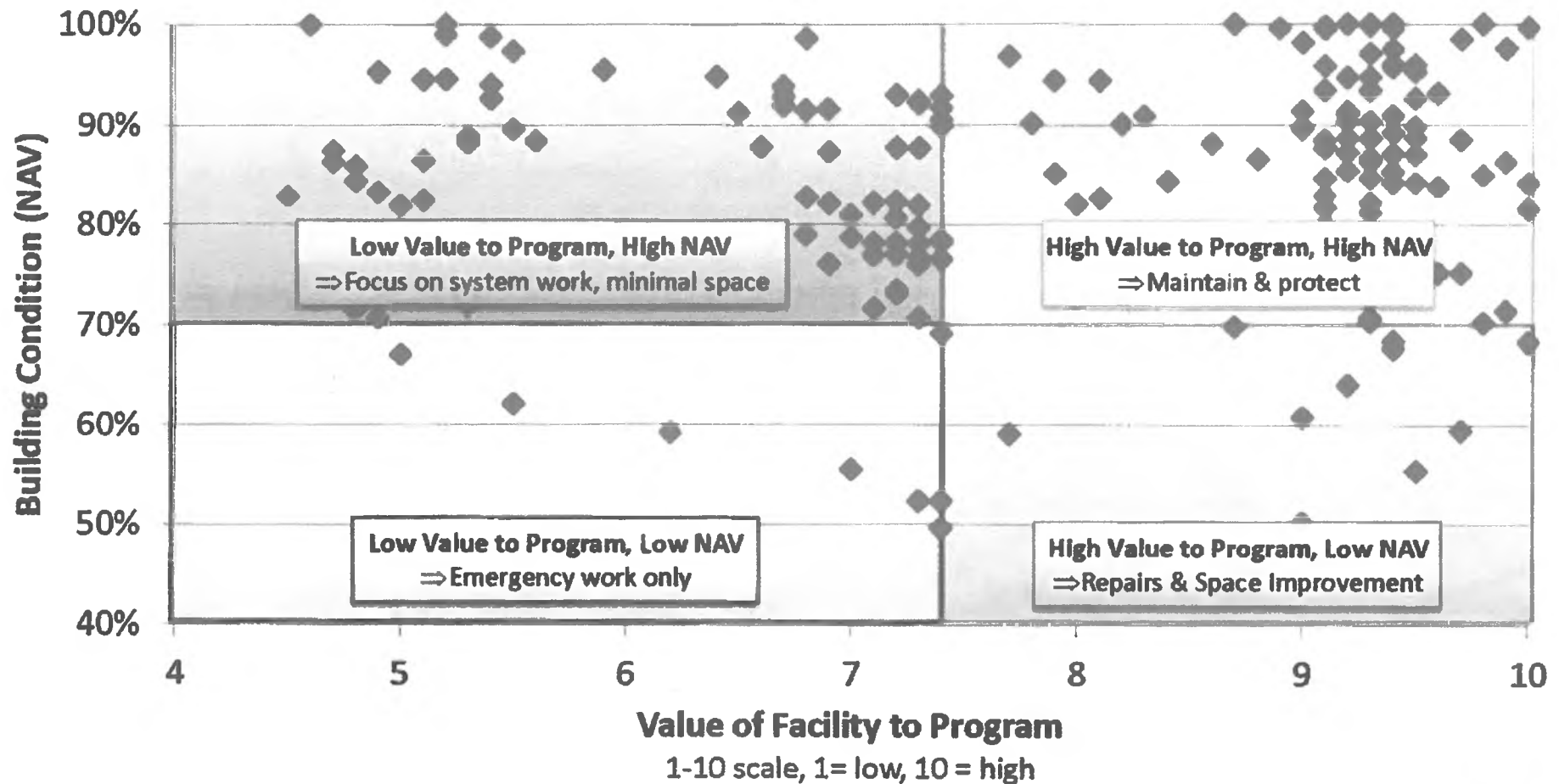
Using the detailed analysis for multi-year investment planning

Investment strategy and project selection based on facts

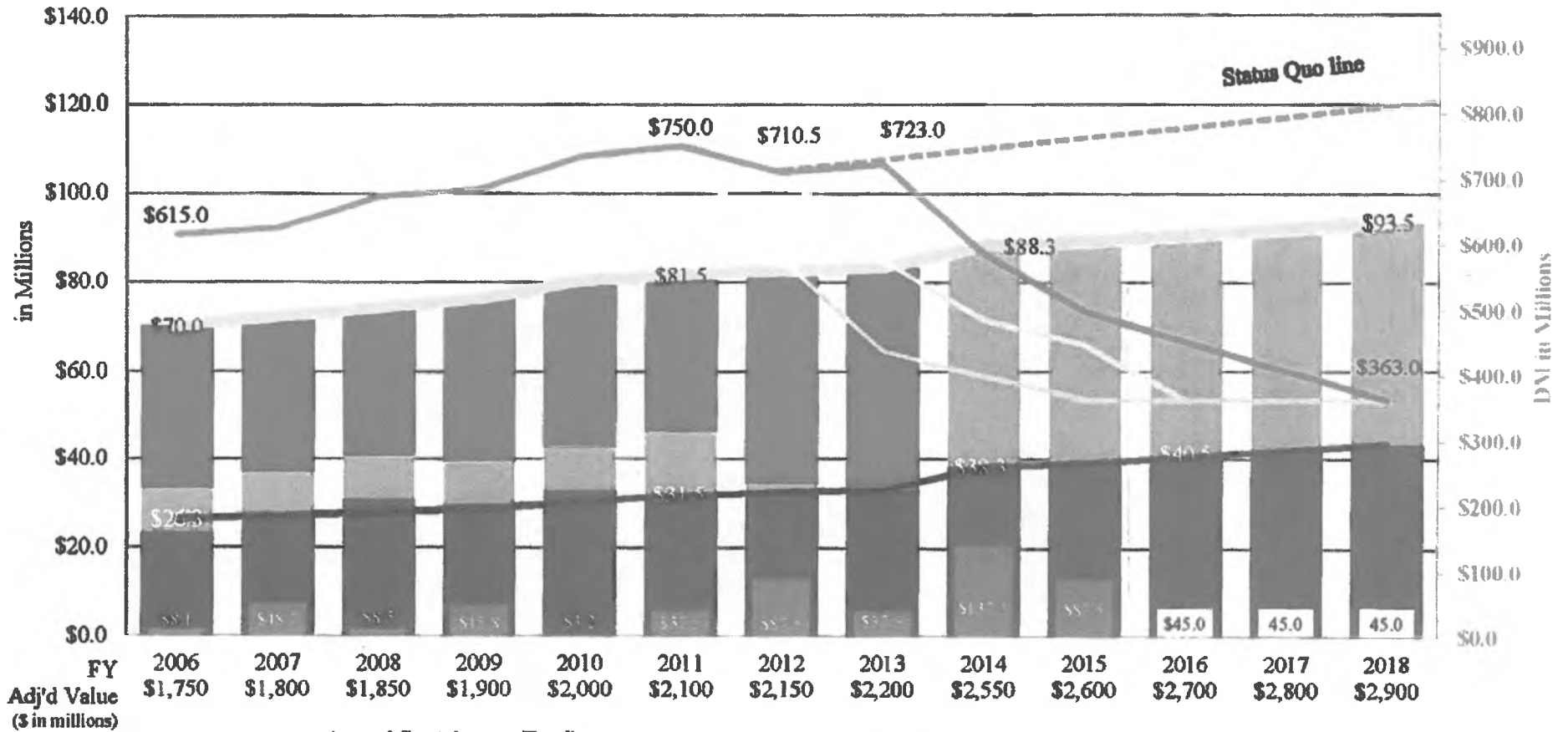


Sightlines

Net Asset Value vs. Value to Program By Building



FY14 Sustainment Funding Plan for UA Facilities



Annual Sustainment Funding

- M&R Annual Expenditures (Operating Budget)
- M&R Annual Maintenance Target 1.5% of Adj'd Value (Budget Intent)
- R&R Annual Capital Expenditures (Target is approx 2.5% of Adj'd Value)
- M&R/R&R Annual Investment Target (Approx 4% of Adj'd Value)
- Annual Investment Target Shortfall (adds to DM backlog)

Deferred Maintenance Reduction

- Deferred Maintenance Reduction Expenditures (\$37.5M for 5yrs + \$200.0M)
- Additional R&R funds necessary to reach sustainment level by FY18
- Deferred Maintenance Backlog with adequate M&R/R&R funding (Reduce to approximately \$360M by FY18)
- Deferred Maintenance Backlog as presented in FY12/FY13
- Deferred Maintenance Backlog without adequate R&R funding (Grows to over \$800M by FY18)

UA Academic and Research Buildings

Building Type	Square Feet	Buildings	Adjusted Value	DM Backlog	R&R Backlog	R&R Rqmt (annual base)	Requested O&M
High NAV and Value	1,873,099	90	998,482,169	43,766,023	19,148,147	9,980,000.00	3,107,000 *
Low NAV, High Value	1,048,858	28	388,380,239	321,436,201	100,212,998	5,830,000.00	0
High NAV, Low Value to Program	219,744	48	68,435,330	3,108,508	3,914,250	6,880,000.00	0
Low NAV, Low Value to Program	27,830	8	4,046,531	4,846,000	96,000		0
Total	3,169,531	174	1,459,344,268	373,156,732	123,371,395	22,690,000	3,107,000

*New requests for academic and research buildings in FY14

UA Total Building Inventory

Building Type	Square Feet	Buildings	Adjusted Value	DM and R&R Backlog	R&R Rqmt (annual base)	Requested O&M
New Construction	660,171	11	527,353,000	-	5,000,000	11,433,400 **
0-10 Years Old	977,756	47	429,237,408	2,124,858	7,900,000	206,300 **
11-15 Years Old	392,445	26	159,848,515	8,613,800	3,200,000	
Subtotal	2,030,372	84	1,116,438,923	10,738,658	16,100,000	11,639,700
16-20 Years Old	470,509	26	194,391,936	18,285,378	4,900,000	
Older than 20 Years	4,865,744	302	1,878,818,444	994,156,569	30,000,000	
Total	7,366,625	412	3,189,649,363	1,023,180,605	51,000,000	11,639,700

**New requests for FY14, FY15 and FY16



UNIVERSITY
of ALASKA
Many Traditions One Alaska

C.S. Christensen III
Associate Vice President
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April 5, 2013

The Honorable Kevin Meyer
Co-Chair, Senate Finance Committee

The Honorable Pete Kelly
Co-Chair, Senate Finance Committee

Dear Senator Meyer and Senator Kelly,

During the Finance Committee hearing on Senate Bill 74, relating to the University Building Fund (UBF), several questions were asked by committee members. Kit Duke asked me to forward the following responses to those questions:

1. How much funding was appropriated to the Alaska Public Building Fund (APBF) when it was created?

According to Vern Jones, the Department of Administration's Chief Procurement Officer, the legislature appropriated \$8,567,900 in capital funds to the APBF in the FY2001 budget for purposes of addressing the deferred maintenance backlog associated with the buildings covered under the fund. The covered buildings ranged from 5-25 years in age with a deferred maintenance backlog of approximately \$50 million, or an average of \$11.00/SF.

The university buildings that would initially be covered by the UBF (those 15 years old or newer, as mentioned yesterday at the hearing) have about \$10.7 million in maintenance backlog, or an average of \$5.50/SF.

2. What is the University's upper limit on bond funding?

Regarding debt capacity, there is no statutory limit that applies to the University of Alaska. However, there is a statutory requirement that UA notify the legislature and obtain its authorization when the debt service for a specific obligation is expected to exceed \$2.5 million annually. AS 14.40.053 provides as follows:

Sec. 14.40.253. Financing notice and approval. If the University of Alaska intends to enter into an obligation, except for refinancing obligations, under AS

The Honorable Kevin Meyer
The Honorable Pete Kelly
April 4, 2013
Page 2

14.40.040(a)(5) with an annual payment by the university anticipated to exceed \$2,500,000, the university shall provide notice to the legislature. The notice must include the anticipated annual payment amount, the anticipated financing, and the total construction, acquisition, or other costs of the project. The university may not enter into an obligation requiring a financing notice under this section, other than a refinancing obligation, unless the project has been approved by the legislature by law. An appropriation for the project does not constitute approval of the project for the purpose of this section.

\$2,500,000 in debt service for a specific obligation translates to approximately \$40 million of actual debt principal over 30 years, although this amount will vary depending on market interest rates.

Regents' Policy P05.04.020.B provides that "[t]he university's annual debt service, including any proposed issue, shall not exceed 5 percent of the university's unrestricted revenues." Currently, annual debt service is approximately 2.8% of unrestricted revenues, with the maximum annual debt service year being FY16. Debt capacity hinges heavily on ability to pay, and so all facts and circumstances need to be taken into account. The more debt that is issued, especially when there is no corresponding revenue stream, the more pressure there is on credit ratings, which can lead to a higher borrowing rate in the event of a downgrade.

3. Why is there no language in the bill indicating that the bill is not intended to create a dedicated fund?

This question is best answered by Legislative Legal Services, which prepared the final bill draft. The university does not propose creation of a dedicated fund.

Please advise if we can provide any additional information.

Sincerely,



C. S. Christensen III
Associate Vice President
State Relations