

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

2574 SCOMM 111: DEFERRED MAINTENANCE TASK FORCE, 1997

STATE DEBT SERVICE

STATE DEBT SERVICE FY 1999 TO FY 2017

State Debt Service FY 99 - 17 Does not include Trustee Fees	FY99	FY00	FY 01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
ACTUAL																			
Palmer Fire facility	766,034	767,447	767,703	766,803	759,747	756,765	757,628	762,103	759,438										
Spring Creek Correctional	4,148,043	4,151,273	4,138,922	4,133,923	4,128,605	4,126,383	4,116,935	4,110,535	1,026,826										
Seward Student Center	667,560	722,250																	
Palmer Courthouse	412,028	411,495	414,445	415,781	415,530														
Kenai Courthouse	562,388	565,910	562,796	563,046	566,363														
Wildwood Correctional Acq.	996,920	993,160																	
Wildwood Correctional Imp.	967,690																		
Court Plaza Building	977,428	976,700	445,331																
Anchorage Times Building	790,593	790,278	790,275	789,676	789,435	789,312													
Soldotna Maintenance	626,640	630,580	631,905	637,330	636,630	639,310	640,323	640,148	643,508	643,508									
Anchorage Health Lab (est)	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	247,1080									
Fairbanks Courthouse	2,860,611	2,882,500	2,890,500	2,894,500	2,899,500	2,900,250	2,906,750	2,913,500	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250				
Bank of America Building (est)		1,183,121	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363
Total Lease Financing	16,247,015	16,545,794	16,662,320	16,221,502	16,216,253	15,232,463	14,442,079	14,446,729	11,370,465	9,584,201	6,469,613	6,469,613	6,469,613	6,469,613	6,469,613	3,549,363	3,549,363	3,549,363	3,549,363
State G. O Bonds	8,839,307	2,432,957																	
Subtotal G.O. & Lease/Fin	25,086,322	18,978,751	16,662,320	16,221,502	16,216,253	15,232,463	14,442,079	14,446,729	11,370,465	9,584,201	6,469,613	6,469,613	6,469,613	6,469,613	6,469,613	3,549,363	3,549,363	3,549,363	3,549,363
International AP Revenue Bonds	4,969,783	2,877,508	2,614,371	2,613,260	2,617,730	2,617,695	2,622,765	2,617,673	2,622,000										
Clean Water Funds Rev. Bonds																			
TOTAL STATE DEBT SERVICE	30,056,105	21,856,259	19,276,691	18,834,762	18,833,983	17,850,158	17,064,844	17,064,402	13,992,465	9,584,201	6,469,613	6,469,613	6,469,613	6,469,613	6,469,613	3,549,363	3,549,363	3,549,363	3,549,363
MEMO																			
School Debt Reimbursement	59,900,000	50,300,000	38,400,000	26,700,000	23,600,000	21,400,000	21,300,000	18,300,000	13,900,000	13,700,000	11,100,000	11,000,000	10,900,000	11,000,000	10,100,000	9,600,000	8,000,000	5,200,000	2,400,000
University of Alaska COP	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	100,000								
Total State Supported D/S**	85,186,322	69,478,751	55,262,320	43,121,502	40,016,253	36,832,463	35,942,079	32,946,729	25,470,465	23,384,201	17,569,613	17,469,613	17,369,613	16,569,613	16,069,613	11,549,363	8,749,363	5,949,363	3,549,363
** (Excludes Revenue Bonds -- AP & Clean Water)																			
w/o B of A debt offset by rent	85,186,322	68,295,630	51,712,957	39,572,139	36,466,890	33,283,100	32,382,716	29,397,366	21,921,102	19,834,838	14,020,250	13,920,250	13,820,250	13,020,250	12,520,250	8,000,000	5,200,000	2,400,000	0

STATE DEBT SERVICE FY 1999 TO FY 2017

State Debt Service FY 99 - 17 Does not include Trustee Fees	FY99	FY00	FY 01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
ACTUAL																			
Palmer Fire facility	786,034	787,447	787,703	786,803	789,747	786,785	787,828	782,103	789,438										
Spring Creek Correctional	4,148,043	4,151,273	4,138,922	4,133,923	4,128,605	4,126,383	4,118,936	4,110,535	1,028,826										
Seward Student Center	667,560	722,250																	
Palmer Courthouse	412,028	411,485	414,445	415,781	415,530														
Kanal Courthouse	562,388	565,910	562,788	563,046	566,363														
Wildwood Correctional Acq.	988,920	983,160																	
Wildwood Correctional Imp.	987,890																		
Court Plaza Building	977,428	976,700	445,331																
Anchorage Times Building	780,593	780,278	780,275	789,678	789,435	789,312													
Soldotna Maintenance	628,640	630,580	631,905	637,330	636,630	639,310	640,323	C40,148	643,508	643,508									
Anchorage Health Lab (est)	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080									
Fairbanks Courthouse	2,860,811	2,882,500	2,890,500	2,894,500	2,899,500	2,900,250	2,906,750	2,913,500	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250	2,920,250
Bank of America Building (est)		1,183,121	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363
Total Lease Financing	18,247,015	18,545,794	18,862,320	18,221,502	18,216,253	15,232,463	14,442,079	14,446,729	11,370,465	9,584,201	6,489,613	6,489,613	6,489,613	6,489,613	6,489,613	6,489,613	3,549,363	3,549,363	3,549,363
State G. O Bonds	8,839,307	2,432,957																	
Subtotal G.O. & Lease/Fin	25,086,322	18,978,751	18,862,320	18,221,502	18,216,253	15,232,463	14,442,079	14,446,729	11,370,465	9,584,201	6,489,613	6,489,613	6,489,613	6,489,613	6,489,613	6,489,613	3,549,363	3,549,363	3,549,363
International AP Revenue Bonds	4,969,783	2,877,508	2,614,371	2,613,260	2,617,730	2,617,685	2,622,785	2,617,673	2,622,000										
Clean Water Funds Rev. Bonds																			
TOTAL STATE DEBT SERVICE	30,056,105	21,856,259	19,276,691	18,834,762	18,833,983	17,850,148	17,064,844	17,064,402	13,992,465	9,584,201	6,489,613	6,489,613	6,489,613	6,489,613	6,489,613	6,489,613	3,549,363	3,549,363	3,549,363
MEMO																			
School Debt Reimbursement	59,900,000	50,300,000	38,400,000	26,700,000	23,600,000	21,400,000	21,300,000	18,300,000	13,900,000	13,700,000	11,100,000	11,000,000	10,900,000	11,000,000	10,100,000	9,600,000	8,000,000	5,200,000	2,400,000
University of Alaska COP	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	100,000									
Total State Supported D/S**	55,186,322	49,478,751	45,262,320	43,121,502	40,016,253	36,832,463	35,642,079	32,646,729	25,470,465	23,384,201	17,589,613	17,489,613	17,389,613	16,589,613	16,089,613	11,549,363	9,749,363	5,849,363	3,549,363
** (Excludes Revenue Bonds - AP & Cle: 'Valer)																			
w/o B of A debt offset by rent	55,186,322	49,295,630	41,712,957	39,572,138	36,468,890	33,283,100	32,392,718	29,397,196	21,921,102	19,834,838	14,020,250	13,920,250	13,820,250	13,020,250	12,520,250	8,000,000	5,200,000	2,400,000	0

Denny
258-5511

DEBT SERVICE
FY 99-07

(Does not include Trustee Fees)

	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>
ACTUAL									
Palmer Fire Facility	766,034	767,447	767,703	766,803	759,747	756,765	757,628	762,103	759,438
Spring Creek Correctional	4,148,043	4,151,273	4,138,922	4,133,823	4,128,605	4,126,383	4,116,935	4,110,535	1,026,828
Seward Student Center	667,560	722,250	-	-	-	-	-	-	-
Palmer Courthouse	412,028	411,495	414,445	415,781	415,530	-	-	-	-
Kenai Courthouse	562,368	565,910	562,786	563,046	566,363	-	-	-	-
Wildwood Correctional - Acq.	998,920	993,160	-	-	-	-	-	-	-
Wildwood Correctional - Imp.	967,890	-	-	-	-	-	-	-	-
Court Plaza Building	977,428	976,700	445,331	-	-	-	-	-	-
Anchorage Times Building	790,593	790,278	790,275	789,676	789,435	789,312	-	-	-
Soldona Maintenance (est)	626,640	626,640	626,640	626,640	626,640	626,640	626,640	626,640	626,640
Anchorage Health Lab (est)	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080
Fairbanks Courthouse (est)	3,186,521	3,186,521	3,186,521	3,186,521	3,186,521	3,186,521	3,186,521	3,186,521	3,186,521
Bank of America Building (est)	-	1,183,121	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363
Total Lease Finance	\$ 16,672,825	\$ 16,845,875	\$ 16,953,076	\$ 16,502,833	\$ 16,493,284	\$ 16,506,064	\$ 14,708,167	\$ 14,706,242	\$ 11,619,869
State G.O. Bonds	8,839,307	2,432,957	-	-	-	-	-	-	-
Subtotal G.O. & Lease Fin.	26,412,232	19,278,832	16,953,076	16,502,833	16,493,284	16,506,064	14,708,167	14,706,242	11,619,869
Interrational AP Revenue Bonds	4,969,783	2,877,508	2,614,371	2,613,280	2,617,730	2,617,695	2,622,785	2,617,673	2,622,000
Clean Water Fund Rev. Bonds	-	-	-	-	-	-	-	-	-
TOTAL STATE DEBT SERVICE	\$ 30,382,015	\$ 22,156,340	\$ 19,567,447	\$ 19,116,093	\$ 19,111,014	\$ 19,123,759	\$ 17,330,932	\$ 17,323,915	\$ 14,241,869

MEMO:

School Debt Reimbursement	59,900,000	50,300,000	38,400,000	26,700,000	23,600,000	21,400,000	21,300,000	18,300,000	13,600,000
University of Alaska COP	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Total State Supported D/S**	86,612,232	69,778,832	66,653,076	43,402,833	40,293,284	37,106,064	36,203,167	33,206,242	25,719,869

** (State Supported Debt Service excludes Revenue Bonds.)

68.6 52.0 39.9 36.7 33.6 32.6 29.7 22.2
68.3 51.7 39.6 36.4 33.3 32.3 29.4 21.9

NEW
10/29/97

Post-It Fax Note	7671	Date	10-29-97	# of pages	1
To	Dennis DeWitt		From	Forest Brown	
Co./Dept.			Co.		
Phone #			Phone #	3750	
Fax #	3518		Fax #		

**DEBT SERVICE
FY 99-07**

(Does not include Trustee Fees)

	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07
ACTUAL									
Palmer Fire Facility	766,034	767,447	767,703	766,803	759,747	756,765	757,628	762,103	END 759,436
Spring Creek Correctional	4,146,043	4,151,273	4,138,922	4,133,823	4,128,605	4,126,383	4,116,935	4,110,535	1,026,826 END
Seward Student Center	667,580	722,250	-	-	-	-	-	-	-
Palmer Courthouse	412,028	411,495	414,445	415,781	415,530	-	-	-	-
Kanai Courthouse	562,388	565,910	562,798	563,046	565,363	-	-	-	-
Wildwood Correctional - Acq.	996,920	993,160	-	-	-	-	-	-	-
Wildwood Correctional - Imp.	967,690	-	-	-	-	-	-	-	-
Court Plaza Building	977,428	976,700	445,331	-	-	-	-	-	-
Anchorage Times Building	790,583	790,278	790,275	789,876	789,435	789,312	-	-	-
Soldotna Maintenance	626,640	630,580	631,905	637,330	636,630	639,310	640,323	640,148	643,508 TO 08
Anchorage Health Lab (est)	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080	2,471,080 TO 08
Fairbanks Courthouse	2,880,611	2,882,500	2,880,500	2,884,500	2,889,500	2,900,250	2,906,750	2,913,500	2,920,250 TO 13
Bank of America Building (est)	-	1,183,121	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363	3,549,363 TO 17
Total Lease Finance	\$ 16,247,816	\$ 16,646,794	\$ 16,662,329	\$ 16,221,592	\$ 16,216,253	\$ 16,232,463	\$ 14,442,879	\$ 14,446,729	\$ 11,379,466
State G.O. Bonds	8,639,307	2,432,957	-	-	-	-	-	-	-
Subtotal G.O. & Lease/Fin.	25,086,322	19,078,751	16,662,329	16,221,592	16,216,253	16,232,463	14,442,879	14,446,729	11,379,466
International AP Revenue Bonds	4,989,783	2,677,508	2,614,371	2,613,260	2,617,730	2,617,685	2,622,785	2,617,873	2,622,000
Clean Water Fund Rev. Bonds									
TOTAL STATE DEBT SERVICE	\$ 30,066,105	\$ 21,856,259	\$ 19,276,691	\$ 18,834,762	\$ 18,833,983	\$ 17,850,168	\$ 17,064,844	\$ 17,064,482	\$ 13,992,466
MEMO:									
School Debt Reimbursement	59,900,000	50,300,000	38,400,000	28,700,000	23,600,000	21,400,000	21,300,000	18,300,000	13,900,000 TO 17
University of Alaska COP	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Total State Supported D/S**	60,100,000	50,500,000	38,600,000	28,900,000	23,800,000	21,600,000	21,500,000	18,500,000	14,100,000

** (State Supported Debt Service excludes Revenue Bonds.)

Post-It® Fax Note 7671

Date / - 29	# of pages 1
To Dennis DeWitt	From Forrest Brown
Co/Dept.	Co.
Phone #	Phone # 3750
Fax # 3518	Fax #

S.1
laskaDebt Service on State Supported Debt
\$ (Millions)

Fiscal Year	State G.O.	University of AK	Lease/Purchase Obligations	School Debt Reimbursement	Total Debt Service
1979	60.0	1.7	10.1	22.3	94.1
1980	75.1	1.8	10.1	24.1	111.1
1981	97.6	2.2	10.0	38.4	148.2
1982	97.5	2.3	10.0	38.3	148.1
1983	143.6	2.3	9.9	56.2	212.0
1984	166.3	2.0	9.9	90.6	268.8
1985	169.5	2.0	10.7	93.2	275.4
1986	163.2	1.8	10.4	106.3	281.7
1987	154.9	1.8	11.2	115.8	283.7
1988	147.9	1.5	11.2	109.5	270.1
1989	135.5	2.2	11.7	110.2	259.6
1990	120.3	2.2	12.0	107.4	241.9
1991	95.5	2.7	12.0	116.3	226.5
1992	68.2	2.7	11.8	127.3	210.0
1993	59.7	3.7	11.2	125.0	199.6
1994	33.8	0.2	8.5	98.7	141.2
1995	22.9	0.2	10.2	93.8	127.1
1996	21.3	0.2	9.6	79.7	110.8
1997	16.5	0.2	9.5	68.6	94.8
1998	14.2	0.2	10.3	62.7	87.4
1999	8.8	0.2	10.3	59.9	79.2
2000	2.4	0.2	9.4	50.3	62.3
2001		0.2	7.1	38.4	45.7
2002		0.2	6.7	26.7	33.6
2003		0.2	6.7	23.6	30.5
2004		0.2	5.7	21.4	27.3
2005		0.2	4.9	21.3	26.4
2006		0.2	4.9	18.3	23.4
2007		0.2	1.8	13.9	15.9
2008		0.1		13.7	13.8
2009				11.1	11.1
2010				11.0	11.0
2011				10.9	10.9
2012				11.0	11.0
2013				10.1	10.1
2014				9.6	9.6
2015				8.0	8.0
2016				5.2	5.2
2017				2.4	2.4

AVERAGE ANNUAL DEBT SERVICE**10 YEAR BONDS**

(amounts do not reflect costs of bond issuance: 1 % of Issue)

		AMOUNT OF BOND ISSUE						
		\$ 50,000,000	\$ 75,000,000	\$ 100,000,000	\$ 125,000,000	\$ 150,000,000	\$ 175,000,000	\$ 200,000,000
Begin Coupon Rate 3/1/00	End Coupon Rate 9/1/09							
4.05%	4.80%	\$6,329,438	\$9,494,130	\$12,658,780	\$15,823,567	\$18,988,308	\$22,153,029	\$25,317,740
4.55%	5.30%	\$6,486,235	\$9,729,318	\$12,972,341	\$16,215,448	\$19,458,787	\$22,701,894	\$26,069,257
5.05%	5.80%	\$6,644,967	\$9,967,291	\$13,289,784	\$16,612,343	\$19,934,583	\$23,257,374	\$26,488,140
6.05%	6.80%	\$6,941,472	\$10,451,742	\$13,935,735	\$17,419,592	\$20,903,375	\$24,387,511	\$27,871,267
Impact of Rate Differences								
0.50%		\$156,797	\$235,188	\$313,561	\$391,881	\$470,479	\$548,865	\$751,517
1.00%		\$315,529	\$473,161	\$631,003	\$788,776	\$946,275	\$1,104,345	\$1,170,400
2.00%		\$612,034	\$957,612	\$1,276,954	\$1,596,025	\$1,915,068	\$2,234,482	\$2,553,527

SCOMM

111:32

File Empty

SCOMM

111:33

ALASKA STATE LEGISLATURE

Rep. Eldon Mulder, Co-Chair
Rep. Kim Elton
Rep. Richard Foster
Rep. Jeannette James
Rep. Beverly Masek
Rep. Gail Phillips



Sen. Tim Kelly, Co-Chair
Sen. Loren Leman
Sen. Georgianna Lincoln
Sen. Robin Taylor
Sen. Gary Wilken
Sen. Mike Miller

DEFERRED MAINTENANCE TASK FORCE

MEMORANDUM

DATE: May 20, 1997
TO: Legislative Research
FROM: Representative Mulder *Eldon*
RE: Research for Deferred Maintenance Task Force

I would like to know what other states and counties are doing in the area of identifying and funding deferred maintenance.

I know many states dedicate the gasoline tax to road construction and maintenance and marine fuel taxes to docks and harbors. I would like to know how many do and which ones they are.

Beyond that information, I would like to know if any other states have addressed this issue and if they have identified:

- any processes for identifying their deferred maintenance needs
- methods for prioritization
- approaches to funding the identified needs

We will need this information for the work of the Deferred Maintenance Task Force during the interim.

If you have any questions or need any further clarification, please contact Denny DeWitt in my Juneau office. His phone number is 465-2647.

Legislative Research Services

Alaska State Legislature
Legislative Affairs Agency
Division of Legal & Research Services



130 Seward Street, Suite 218
Juneau, Alaska 99801-2196
Phone: (907) 465-3991
Fax: (907) 463-3351

June 2, 1997

MEMORANDUM

TO: Representative Eldon Mulder

FROM: ^{PB} Paul Brandt and Paula d. Scavera
Legislative Analysts

RE: Deferred Maintenance of Highways, Public Facilities, and Schools in Other States
Research Request 97.096

You asked about deferred maintenance of highways, public facilities, and schools in other states. You wanted to know about the use of state fuel taxes for highway maintenance, and how other states identify and fund deferred maintenance of public facilities and schools. After a brief summary, this memorandum reviews the public facilities deferred maintenance programs in three states, examines the deferred school maintenance programs in two states, and reports on the nationwide use of dedicated state taxes to fund highway maintenance projects.

In order to obtain information on deferred maintenance programs in other states we contacted facility management specialists with the Council of State Governments (CSG), the National Association of Facilities Managers, the National Conference of State Legislators (NCSL), as well as numerous state officials. Individuals from every source we contacted agree that there is little published information on this general subject. Additionally, the professional staff of the aforementioned national organizations could not offer much guidance or advice on states with particularly successful approaches to deferred maintenance management. As a result, we relied heavily on information from lengthy discussions with facilities managers in California, Delaware, Idaho, Nebraska, and Tennessee.

We selected for review the public facilities deferred maintenance programs of Idaho, Nebraska, and Tennessee because they emphasize funding methods different from the traditional sale of bonds in order to finance capital maintenance projects. In addition, we selected for review the deferred school maintenance programs of California and Delaware because they operate so-called "matching" programs, requiring school districts to fund a portion of deferred maintenance costs in order to qualify for state funding.

SUMMARY

During our research, two facts became abundantly clear: 1) no matter how states organize or choose to fund their deferred maintenance projects a substantial amount of money is required; and 2) continually delaying maintenance ultimately results in increased projects costs. As one state official noted, you can pay for maintenance projects now or you can pay three times as much later. Most states sell bonds to pay for the deferred maintenance needs of public facilities. In contrast to this general rule, lawmakers in Idaho, Nebraska, and Tennessee established alternate funding methods. In Idaho, lawmakers established the Permanent Building Fund to make available resources for deferred maintenance projects. The fund receives revenues from several dedicated taxes including half the profits of the state-run lottery. In 1977, in an effort to study the problem of deferred maintenance, Nebraska lawmakers established the Task Force for Building Renewal which eventually became a permanent state agency. The Task Force receives funding from general fund appropriations and is unique in its use of preventive maintenance and education programs. In Tennessee, lawmakers instituted a rental system that requires state agencies to pay market rate rents which are used, in part, to pay for deferred maintenance. In recent years, Tennessee's rental system has failed to generate sufficient funds because of the legislature's reluctance to increase rents during periods of rising operational costs.

The U.S. General Accounting Office (GAO) recently estimated that the nation's schools require over \$112 billion in major repairs and renovations. Typically, local school districts receive state funds to pay for deferred maintenance in the form of grants and loans. A common method of administering grants is through state matching programs. These programs require school districts to supply a portion of the funds for deferred maintenance before becoming eligible for state dollars. In California, lawmakers established the State School Deferred Maintenance Fund as a source of revenue for its matching grant program. In order to qualify for funds, school districts prepare five-year deferred maintenance plans. By law, the state must match school districts dollar-for-dollar up to specified limits, but revenue shortfalls prevent the state from meeting this mandate. Delaware lawmakers provide an annual appropriation for the state's deferred school maintenance program. State school officials distribute the funds based on the number of students in each district. In order to qualify for matching funds, school districts must prepare a list of deferred maintenance projects and provide 40 percent of the project cost.

In 1995, 49 states dedicated all or a portion of their highway user fees--fuel taxes, vehicle registration fees, and vehicle licensing fees--to help pay for highway construction, maintenance, or other transportation-related programs.¹ At least 23 states authorize dedication of highway user fees through provisions in state constitutions. While the majority of these states apportion 100

¹ Arturo Perez and Ronald Snell, "Earmarking State Taxes," April 1995. While Alaska's highway user fees are not dedicated, they are kept in a separate account within the general fund. The authors of the study recognized this distinction, but considered the funds "essentially" dedicated and, for this reason, concluded that all 50 states earmark highway user fees. Attachment A is a copy of this report.

percent of highway user fees to transportation programs, states authorizing dedication by statute may use these funds for purposes other than transportation. Many states place revenues generated from highway user fees into trust funds to ensure they are not spent for non-transportation purposes. Table 1 identifies those states with either transportation or highway trust funds and indicates which states devote highway user fees solely to highway or transportation purposes.

STATE PROGRAMS DESIGNED TO FUND DEFERRED MAINTENANCE OF PUBLIC FACILITIES

According to Charles Gault, Facilities Management Specialist with the Council of State Governments, most states use bonds to finance maintenance projects for public facilities, but even with this common system of financing, no standard facility management program exists among states. We identified three states that have well-established deferred maintenance programs and use methods other than bonding to finance public facilities maintenance projects.² The following is a review of the funding sources and deferred maintenance programs of Idaho, Nebraska, and Tennessee.

Idaho's Permanent Building Fund

The Idaho Division of Public Works oversees the planning and construction of all new office buildings and institutional facilities in the state. It also oversees capital maintenance projects greater than \$15,000 (less expensive projects are paid from agency operating funds). The division also oversees maintenance of prisons, special schools, mental hospitals, and other state-run institutions including Boise State College, Idaho State College, and Lewis and Clark College. The only exceptions are special-use buildings such as storage sheds, covered camping and picnic shelters, fish hatcheries and highway maintenance shops that are owned by the Departments of Parks and Recreation, Lands, Fish and Game, and Transportation.

Major maintenance and renewal projects undertaken by the division are financed through the Permanent Building Fund.³ Revenue from several sources feeds this dedicated fund. The largest stream of revenue to the fund is the dedication of half of the net earnings of the state-run lottery (the other half is distributed to schools districts for capital improvement projects). Other sources

²When speaking of deferred maintenance of public facilities we are generally speaking of state-owned office buildings and warehouses. In some states, such as Idaho and Nebraska, the division responsible for deferred maintenance also oversees prisons, state-owned hospitals, and other public institutions.

³Attachment B is a copy of Idaho's Statutes concerning the Permanent Building Fund (IC 57-1101 through 57-1113).

include a special \$10 "head tax" assessed against every person who files a personal income tax return in the state and a portion of liquor sales tax and cigarette tax revenue. Currently, the fund has over \$18 million from dedicated sources. From time to time the legislature appropriates year-end money to the fund for special projects. Rent paid by tenants of state-owned buildings does not go into the dedicated Permanent Building Fund, but, instead, is used for operations and preventive maintenance.

The Permanent Building Fund Advisory Committee, a five-member body appointed by the governor, works with the Division of Public Works to assess the condition of state-owned buildings.⁴ The Advisory Committee recommends which capital projects should be financed through the Permanent Building fund and also selects architects and engineers for authorized projects.

Working with Public Works staff, the committee annually presents to the legislature a list of capital projects. The process begins in September, when the Public Works officials solicit needed capital maintenance projects from state agencies. Public Works staff investigate the proposals, usually with onsite inspections. After an initial screening, those state agencies with projects under consideration may make presentations to the Committee. On the basis of facility inspections and agency presentations, Public Works staff prioritize the projects for the committee. The committee reviews these suggestions and issues its own recommended list of projects to the legislature. The legislature must approve all appropriations of money from the Public Building Fund. In evaluating proposals, the Division of Public Works and the Committee use the following priorities to rank projects: 1) repairs that are necessary to save the structure; 2) repairs to protect the health and safety of occupants; 3) exterior renovation; and 4) interior renovation. According to officials in the division, the legislature usually defers to the committee and only occasionally deviates from the list of recommended projects.

Tennessee's Rental System

The deferred maintenance of public facilities in Tennessee is funded through the State Office Buildings and Support Facilities Revolving Fund.⁵ According to Eddie Nikazy, Facility Manager for the Tennessee Department of Administration, the fund receives revenues from rents paid by state agencies. Tennessee law allows the department to charge market rate rents and requires that these funds pay for: 1) operating expenses for office buildings and support facilities; 2) debt service payments on general obligation bonds authorized to build or acquire office buildings and

⁴By law, one member must be a banker, one a contractor, one a member of the general public, one a state senator, and one a state representative.

⁵Attachment C is a copy of the Tennessee Statutes concerning the fund (TCA 9-4-901 through 9-4-907).

support facilities; 3) routine maintenance expenditures on office buildings and support facilities; 4) major maintenance and renovation projects for office buildings and support facilities as approved by the state building commission; 5) relocation expenses for state agencies; 6) obligations for leased space occupied by state agencies; and 7) building or acquiring buildings or support facilities as approved by the state building commission.

The Tennessee Building Commission selects which capital maintenance projects receive funding. State agencies submit requests for capital maintenance projects and the Commission determines highest priority projects based on evaluations completed by Department of Administration staff. The Commission consists of seven members: the governor, the secretary of state, the comptroller of the treasury, the state treasurer, the commissioner of finance and administration, and the speakers of the senate and the house of representatives.⁶

Mr. Nikazy reported that when lawmakers established the program in 1989, the department hired certified appraisers to determine appropriate market rate rents for urban, suburban, and rural areas.⁷ The rents were sufficient to meet the financial obligations listed above and to create a \$29 million surplus in the fund after only a few years. Lawmakers in Tennessee have not allowed the department to raise rental rates since establishing the program, however, and the fund's surplus is nearly exhausted. Mr. Nikazy indicated that without periodic rate adjustments, either in the form of cost of living allowances or new appraisals, the fund will not be able to meet its statutory obligations.

In addition to the fact that no mechanism exists to automatically adjust rents to reflect inflation, department officials must use the fund to pay for other services besides deferred maintenance. For example, state officials use monies from the fund to relocate state agencies including the costs of new furniture and wiring for telephones and computers. Because of competing claims on limited funds, department officials are not able to complete many deferred maintenance projects.

Nebraska's Task Force for Building Renewal

In 1977, lawmakers in Nebraska established the state's Task Force for Building Renewal following a legislative review of the condition of state buildings. According to Ralph Newell, Administrator

⁶Attachment D is a copy of the Tennessee Statutes concerning the State Building Commission (TCA 4-15-101 through 4-15-107).

⁷The market rate rents were established in 1989 at \$14 dollars per square foot (\$14/ft) in urban areas, \$13/ft in suburban areas, and \$9/ft in rural areas.

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of the Task Force, legislators were shocked at the deplorable condition of many state buildings during their statewide tour.⁸

The objective of the Task Force was to establish a central administration which would identify the state's deferred maintenance needs and develop policies and procedures for a new building maintenance program. As a result of the committee's work, the Task Force became a state agency in 1981.⁹

Oversight of the Task Force is conducted by members of a commission, appointed by the governor, consisting of retired construction specialists.¹⁰ This commission is also responsible for final project selection. Before the commission makes these selections, however, Task Force staff must conduct mandatory specification and contract reviews. These mandatory reviews create familiarity with the Nebraska construction costs and allow the Task Force to negotiate competitively.

The Task Force uses professionals with demonstrated expertise in architecture and construction to evaluate the maintenance needs of state buildings and to prioritize maintenance projects. These professionals are not state employees, instead, they function as self-employed consultants. The full-time staff of the Task Force consists of an administrator, a registered architect, an administrative assistant, and a staff assistant. In fiscal year 1995, the operations budget of the Task Force, including the cost of consultants, was less than 5 percent of the agency's appropriation.¹¹

According to Ralph Newell, the Task Force has funded \$67 million worth of projects over the last 19 years with an average yearly appropriation of \$3.5 million. In addition to funding projects, the

⁸Ralph Newell maintains a great deal of information on deferred maintenance programs in other states. Additionally, he takes a great interest in the subject of deferred maintenance and is willing to assist other states attempting to establish programs.

⁹The Task Force oversees the maintenance of most state-owned facilities including state office buildings, warehouses, prisons, state park buildings, and state owned hospitals. Plans are currently in place to expand the office's functions to include the oversight of school facility maintenance. Attachment E is a copy of Nebraska's Statutes concerning the Task Force for Building Renewal (RSN 71-6401 through 71-6407, 81-173 through 81-191.01, 81-1108.17 through 81-1108.23, and 81-1108.42 through 81-1108.43).

¹⁰The commission members also participate in onsite building reviews. Members are compensated on a per diem basis.

¹¹Attachment F is a copy of the policy and procedure manual of Nebraska's Task Force for Building Renewal.

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Task Force operates several special programs focusing on education and preventive maintenance. Mr. Newell credits these programs with saving the state untold dollars and adding to the Task Force's success.

Unlike the deferred maintenance programs of Idaho and Tennessee, Nebraska's Task Force has responsibility for deferred maintenance projects only. Mr. Newell indicated that Nebraska's centralized building management program was purposely separated from the Task Force's deferred maintenance responsibilities. In addition to providing focus, the singular mandate simplifies oversight of the Task Force by both the executive and legislative branches of government. Mr. Newell believes that the Task Force receives strong support from both state agencies and the legislature because all parties are easily able to review Task Force actions.

DEFERRED MAINTENANCE OF SCHOOL FACILITIES

According to a 1995 report from the U.S. General Accounting Office (GAO), an estimated \$112 billion dollars is needed to complete repairs and renovations to the nation's schools in order to restore them to good condition. GAO officials concluded that the declining physical condition of these facilities is the result of school districts delaying maintenance and repairs, year after year, due to lack of adequate funds.¹²

A companion report, also prepared by GAO, examines the financial and technical support provided by states to school districts. GAO officials reported that most states provide funding for capital maintenance projects through grants or loans. GAO officials evaluated state school facility programs based on four criteria including funding to districts, number of state employees working on facility matters, current information on school conditions, and the level of technical assistance available to districts from the state. Using the criteria listed above, GAO officials found only 13 states with comprehensive school facility programs.¹³

While the report does not elaborate on specific state programs, it does mention that many states use matching programs to help school districts with the cost of major maintenance. Although there are undoubtedly others, we identified two states with deferred maintenance matching programs (**California and Delaware**).

¹²U.S. General Accounting Office, *School Facilities: Condition of America's Schools*, February 1995. A copy of this report is included as Attachment G.

¹³U.S. General Accounting Office, *School Facilities: States' Financial and Technical Support*, November 28, 1995. Alaska's school facility program was listed as one of the programs characterized as comprehensive. Attachment H is a copy of this report.

California's State School Deferred Maintenance Fund

To be eligible for state assistance for capital maintenance projects, school districts in California must prepare and file a five-year maintenance needs plan with the State of California Allocation Board. Once the plan is filed and approved, schools districts become eligible for state matching grants. By law, the state must match school districts dollar-for-dollar up to a limit of 1/2 of 1 percent of a district's total yearly budget.¹⁴

The money used to fund deferred maintenance matching grants in California may come from four sources: 1) general obligation bonds issued by the state; 2) fines paid by oil producers and shippers into the state's Petroleum Violation Escrow Account; 3) excess bond repayment funds; and 4) general fund appropriations. According to Eddie Hernandez, Manager of the State School Deferred Maintenance Fund, the primary source of revenue for the deferred maintenance program is from excess bond repayments because the legislature has been reluctant to issue general obligation bonds or to use monies in the petroleum escrow account. Mr. Hernandez also indicated that the program has received only four general fund appropriations over the last 16 years.

Money generated from excess bond repayments is not sufficient to match school districts at the dollar-for-dollar rate required by statute. In the early years of the program, school districts received approximately 80 percent of the required matching funds. As revenues to the fund decreased during the late 1980s and early 1990s, school districts received approximately 25 percent of the required funds. Currently, legislation is pending in the California Assembly which would place \$2 billion in the maintenance fund. The intent of the legislation is to provide adequate principle so that the yearly earnings are sufficient to achieve the dollar-for-dollar matching requirement.

Delaware's Deferred School Maintenance Program

Delaware's deferred school maintenance program is composed of two parts: the Minor Capital Improvement Program (projects under \$250,000) and the Major Capital Improvement Program (one or more projects with a total cost greater than \$250,000). The state matching monies come from a yearly general fund appropriation. In 1997, the appropriation was \$5.9 million.

School districts are eligible for a portion of the appropriation based on their enrollment in relation to the total student population of the state. For example, if a school district has 10 percent of the state's students, they receive 10 percent of the yearly appropriation.¹⁵ According to Ed

¹⁴ Attachment I is a copy of the California Education Code concerning the requirements of the deferred maintenance program (Education Code § 39618 through § 39619.55).

¹⁵ School districts supply 40 percent of the project costs and the state provides 60 percent in the form of matching funds.

Shimamoto, Education Associate for School Planning and Maintenance within the Delaware Department of Public Institutions, department officials believe that school districts are more responsible for maintenance needs if a portion of the project costs comes from the school district's budget. Mr. Shimamoto also indicated that by apportioning the monies based on enrollment, the state does not have to prioritize projects. Project selection and prioritization are left to individual school districts; the districts submit yearly requests to the state as part of the funding process.

In 1996, the \$5.9 million appropriation paid for approximately 15 percent of the requests submitted by districts. Mr. Shimamoto indicated that the percentage is misleading because districts often include a "wish list" of projects rather than only those that are truly needed. The majority of the grants are given under the Minor Capital Improvement Program because districts must have voter approval for projects exceeding \$250,000. To avoid facing voter rejection, districts often break large projects into several smaller pieces, achieving individual project costs below \$250,000.¹⁶

HIGHWAY MAINTENANCE AND EARMARKING STATE TAXES

According to Arturo Perez, Fiscal Affairs specialist with NCSL, dedicating revenues for specific purposes, commonly known as earmarking, is a routine practice among states. In 1995, a report prepared by NCSL, *Earmarking State Taxes*, identified states with earmarked revenues and the programs these funds support. The report found that all 50 states earmark at least a portion of highway user fees--fuel taxes, driver license fees, and/or vehicle registration fees--for transportation purposes. The report includes Alaska because the state's motor fuel taxes are deposited in a special highway fuel tax account (Alaska Statute 43.40.010); NCSL officials, therefore, considered these funds "essentially" earmarked.¹⁷

While all states have some form of dedicated highway user fees, the laws authorizing the dedication may be either statutory or constitutional. At least 23 states dedicate revenues from highway user fees per provisions in their state constitutions. While the constitutional provisions differ, most of the 23 states apportion 100 percent of these revenues for transportation-related programs.

In states that dedicate highway user fees by statute, many also dedicate 100 percent of these revenues for transportation purposes; some, however, devote substantially less. For example, New

¹⁶Attachment J is a copy of Delaware's statutes concerning the deferred school maintenance matching program (DCA § 7503 through § 7529).

¹⁷New Jersey is similar to Alaska in that motor fuel tax receipts are placed in a special account within the general fund.

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York dedicates only 20 percent of highway user fee revenues for transportation purposes, and lawmakers in Arizona and California allow officials in their states to use a portion of highway user fees revenues for education.

The use of dedicated highway user fees for transportation purposes varies among states. According to Frank Moretti of the Road Information Program based in Washington, D.C., 28 states dedicate highway user fees strictly for road and bridge improvement and another 11 states require their use for only transportation-related purposes. Mr. Moretti also indicated that several states place dedicated highway user fees in trust funds to prevent spending on programs unrelated to highways. Table 1 identifies those states with either transportation or highway trust funds and indicates which states dedicate highway user fees solely for highway or transportation purposes.¹⁸

I hope this information is useful for your purposes. Please do not hesitate to call if you have additional questions.

Attachments

¹⁸Federal Highway Administration, *Highway Taxes and Fees: How they are collected and Distributed*, 1993. In 1993, the U.S. Department of Transportation's Federal Highway Administration prepared a study that details how states spend their highway taxes and fees. We have included a copy of this report as Attachment K.

TABLE 1				
STATE DEDICATED HIGHWAY AND TRANSPORTATION FUNDS				
State	Transportation Trust Fund Dedicated Solely to Transportation	Highway Trust Fund Dedicated Solely to Highways	Highway User Fees Dedicated Solely to Transportation	Highway User Fees Dedicated Solely to Highways
Alabama		X		X
Alaska				
Arizona		X	X	X
Arkansas		X	X	X
California	X			
Colorado		X	X	X
Connecticut	X		X	
Delaware	X		X	
D.C.		X		
Florida	X			
Georgia		X	X	X
Hawaii		X	X	X
Idaho	X	X	X	X
Illinois				X
Indiana	X	X	X	X
Iowa		X	X	X
Kansas		X	X	X
Kentucky		X		X
Louisiana	X			
Maine		X	X	X
Maryland	X		X	
Massachusetts	X		X	
Michigan	X		X	
Minnesota		X		X
Mississippi	X		X	
Missouri	X	X	X	X
Montana	X			
Nebraska		X		X
Nevada		X	X	X
New Hampshire		X	X	
New Jersey	X			
New Mexico		X		X
New York	X	X	X	
North Carolina		X	X	X
North Dakota		X		X
Ohio		X	X	
Oklahoma				
Oregon		X	X	X
Pennsylvania		X	X	X
Rhode Island	X	X	X	
South Carolina				
South Dakota		X	X	X
Tennessee		X		X
Texas	X			
Utah	X		X	
Vermont				
Virginia	X	X	X	X
Washington	X	X	X	X
West Virginia		X	X	X
Wisconsin	X			
Wyoming		X	X	X
TOTALS	21	32	31	28

Source: The Road Information Program, 1996 State Highway Funding Methods, Washington, D.C.

Title of article

This article may be cited as Virginia Public Building Authority Act of 1981.

§ 2.1-234.11**Definitions**

The following terms, whenever used or referred to in this article, shall have the following meanings, except in those instances where the context clearly indicates otherwise:

- 1. The term "Authority" shall mean the body politic and corporate created by this article.**
- 2. The term "project" shall mean any structure, facility, personal property or undertaking which the Authority is authorized to finance, refinance, construct, improve, furnish, equip, maintain, acquire, or operate under the provisions of this article.**
- 3. The term "board" shall mean the governing body of the Authority.**
- 4. The term "person" shall mean and include natural persons, firms, associations, corporations, business trusts, partnerships, and public bodies.**
- 5. The term "federal agency" shall mean and include the United States of America, the President of the United States of America, and any department of, or corporation, agency, or instrumentality heretofore or hereafter created, designated, or established by the United States of America.**
- 6. The term "bonds" shall mean and include the notes, bonds, and other evidences of indebtedness or obligations which the Authority is authorized to issue pursuant to this article.**
- 7. The term "construction" shall mean and include acquisition and construction, and the term "to construct" shall mean and include to acquire and to construct all in such manner as may be deemed desirable.**
- 8. The term "improvement" shall mean and include extension, enlargement, improvement, and renovation and the term "to improve" shall mean and include to extend, to enlarge, to improve, and to renovate all in such manner as may be deemed desirable.**
- 9. The terms "fixtures" and "furnishings" shall mean and include any fixtures, leasehold improvements, equipment, office furniture and furnishings whatsoever as may be deemed desirable and required by the lessee of a project for the use and occupancy of such project, and the terms "to furnish" and "furnishing" shall mean and include the installation of such fixtures, equipment and furnishings.**
- 10. The term "cost" as applied to a project financed under the provisions of this article shall mean the sum total of all costs incurred by the Authority as are reasonable and necessary for carrying out all works and undertakings necessary or incident to accomplish a project, including, without limitation because of enumeration, the cost incurred by the Authority of all necessary developmental, planning and feasibility studies, surveys, plans and specifications, architectural, engineering, financial, legal or other special services, the cost of acquisition of land and any buildings and improvements thereon, including the discharge of any obligations of the vendor of such land, buildings or improvements, site preparation and development including demolition or removal of existing structures, construction, and reconstruction, the reasonable cost of financing incurred by the Authority in the course of the development of a project, carrying charges during construction to the occupancy date, interest on bonds issued to finance a project to a date subsequent to the estimated date of completion of a project, necessary expenses incurred in**

connection with the initial occupancy of a project, the funding of such funds and accounts as the Authority determines to be reasonable and necessary with regard to bonds of the Authority and the cost of such other items as the Authority determines to be reasonable and necessary.

11. The term "state" shall mean the Commonwealth of Virginia and any agency or department thereof.

12. The term "personal property" shall mean and include all items of equipment, fixtures, and furnishings, including items affixed to real property.

§ 2.1-234.12

Virginia Public Building Authority created; membership; terms; expenses; vacancies

The State Treasurer or his designee, the State Comptroller, and five additional members appointed by the Governor, subject to confirmation by the General Assembly, if in session when such appointments are made, and if not in session, at its first session subsequent to such appointment, who shall serve at the pleasure of the Governor, are hereby created a body corporate and politic, constituting a public corporation and governmental instrumentality by the name of the "Virginia Public Building Authority." Unconfirmed appointments shall expire thirty days after the convening of the General Assembly. Such members of the Authority shall be entitled to no compensation for their services as members, but shall be entitled to reimbursement for all necessary expenses incurred in connection with the performance of their duties as members. The term of each member appointed by the Governor shall be five years; provided, however, that of the members first appointed, one shall be appointed for a term of five years, one for a term of four years, one for a term of three years, one for a term of two years, and one for a term of one year. Any vacancy happening among the appointed members of the Authority shall be filled by appointment by the Governor, subject to confirmation by the General Assembly. The Department of the Treasury shall serve as staff to the Authority.



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§ 2.1-234.13**Purposes and general powers and duties of Authority**

The Authority is created for the purpose of constructing, improving, furnishing, maintaining, acquiring, and operating public buildings for the use of the Commonwealth (heretofore or hereafter constructed), state arsenals, armories, and military reserves, state institutions of every kind and character (heretofore and hereafter constructed), additions and improvements to land grant colleges, state colleges, universities and medical colleges, and the purchase of lands for rehabilitation purposes in connection with state institutions and for use of state colleges, and museum facilities for a trust instrumentality of the United States, and the purchase of lands for the development of public buildings which may be authorized by the General Assembly in the future, the acquisition of items of personal property for the use of the Commonwealth, and the financing or refinancing of reimbursements to localities or regional jail authorities of all or any portion of the Commonwealth's share of the costs for jail projects made pursuant to §§53.1-80, 53.1-81, 53.1-82, or 53.1-95.19 (any and all of the foregoing being herein called "projects"), the purpose and intent of this article being to benefit the people of the Commonwealth by, among other things, increasing their commerce and prosperity. The Authority shall not undertake or finance or refinance any project or projects which are not specifically included in a bill or resolution passed by a majority of those elected to each house of the General Assembly, authorizing such project or projects or the reimbursement of all or any portion of the Commonwealth's share of the costs of such project or projects and, as to any project relating to a state institution of higher education, not specifically designated by the board of visitors of that institution as a project to be undertaken by the Authority. The Authority is hereby granted and shall have and may exercise all powers necessary or convenient for the carrying out of the aforesaid purposes, including, but without limiting the generality of the foregoing, the following rights and powers:

1. To have perpetual existence as a corporation.
2. To sue and be sued, implead and be impleaded, complain and defend in all courts.
3. To adopt, use, and alter at will a corporate seal.
4. To acquire, purchase, hold and use any property, real, personal or mixed, tangible or intangible, or any interest therein necessary or desirable for carrying out the purposes of the Authority; without limitation of the foregoing, to lease as lessee, with the approval of the Governor, any property, real, personal or mixed, or any interest therein for a term not exceeding ninety-nine years at a nominal rental or at such annual rental as may be determined; with the approval of the Governor, to lease as lessor to the Commonwealth of Virginia and any city, county, town or other political subdivision, or any agency, department, or public body of the Commonwealth, or land grant college, any project at any time constructed by the Authority and any property, real, personal or mixed, tangible or intangible, or any interest therein, at any time acquired by the Authority, whether wholly or partially completed; with the approval of the Governor, to sell, transfer and convey to the Commonwealth of Virginia, any project at any time constructed by the Authority; and, with the approval of the Governor, to sell, transfer and convey any property, real, personal or mixed, tangible or intangible, or any interest therein, at any time acquired by the Authority.
5. To acquire by purchase, lease, or otherwise, and to construct, improve, furnish, maintain, repair, and operate projects.

6. To make bylaws for the management and regulation of its affairs.

7. To fix, alter, charge, and collect rates, rentals, and other charges for the use of the facilities of, or for the services rendered by, the Authority, or projects thereof, at reasonable rates to be determined by it for the purpose of providing for the payment of the expenses of the Authority, the construction, improvement, repair, furnishing, maintenance, and operation of its facilities and properties, the payment of the principal of and interest on its obligations, and to fulfill the terms and provisions of any agreements made with the purchasers or holders of any such obligations.

8. To borrow money; make and issue negotiable notes, bonds, and other evidences of indebtedness or obligations (herein called "bonds") of the Authority and such bonds as the Authority may, from time to time, determine to issue for the purpose of refunding bonds previously issued by the Authority; to secure the payment of all bonds, or any part thereof, by pledge or deed of trust of all or any of its revenues, rentals, and receipts; to make such agreements with the purchasers or holders of such bonds or with others in connection with any such bonds, whether issued or to be issued, as the Authority shall deem advisable; and in general, to provide for the security for said bonds and the rights of holders thereof, provided that the total principal amount of such bonds outstanding at any time shall not exceed \$1,386 million.

The Authority shall submit an annual report to the Governor and General Assembly on or before November 1 of each year containing, at a minimum, the annual financial statements of the Authority for the year ending the preceding June 30. The annual report shall be distributed in accordance with the provisions of §2.1-467.

9. To make contracts of every name and nature, and to execute all instruments necessary or convenient for the carrying on of its business.

10. Without limitation of the foregoing, to borrow money and accept grants from, and to enter into contracts, leases or other transactions with, any federal agency.

11. To have the power of eminent domain.

12. To pledge or otherwise encumber all or any of the revenues or receipts of the Authority as security for all or any of the obligations of the Authority.

13. To do all acts and things necessary or convenient to carry out the powers granted to it by this article or any other acts.

14. To acquire, by assignment from the Commonwealth or the Virginia Retirement System, all contracts, including those which are not completed, which involve constructing, improving, furnishing, maintaining, and operating the structures, facilities, or undertakings similar to those designated herein as projects.

15. To enter into contractual agreements with localities or regional jail authorities undertaking a jail project for which the financing or refinancing of reimbursements of all or any portion of the Commonwealth's share of the costs of such project will be made pursuant to subsection A 3 of §53.1-82.2.

Except as otherwise provided by law, when projects are to be constructed, improved, furnished, maintained, repaired or operated for the use of any department of the Commonwealth, as hereinbefore

listed in this section, no plans or specifications therefor shall be presented for quotations or bids until such plans and specifications shall have been submitted to and approved by the Department of General Services and any other department of the Commonwealth having any jurisdiction over the projects, so that the project will conform to standards established by such departments.



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§ 2.1-234.14**Revenue bonds generally**

The Authority is hereby authorized to provide for the issuance, at one time or from time to time, of revenue bonds of the Authority for the purpose of paying all or any part of the cost of any one or more projects or of any portion or portions thereof. The principal of and the interest on such bonds shall be payable solely from the funds provided in this article for such payment. Any bonds of the Authority issued pursuant to this article shall not constitute a debt of the Commonwealth, or any political subdivision thereof other than the Authority, and shall so state on their face. Neither the members of the Authority nor any person executing such bonds shall be liable personally thereon by reason of the issuance thereof. The bonds of each issue shall be dated, shall bear interest, shall mature at such time or times not exceeding forty years from their date or dates, as may be determined by the Authority, and may be made redeemable before maturity, at the option of the Authority, at such price or prices and under such terms and conditions as may be fixed by the Authority, at such price or prices and under such terms and conditions as may be fixed by the Authority prior to the issuance of the bonds. The Authority shall determine the form and the manner of execution of the bonds, including any interest coupons to be attached thereto, and shall fix the denomination or denominations of the bonds and the place or places of payment of principal and interest, which may be at any bank or trust company within or without the Commonwealth. In case any officer whose signature or a facsimile of whose signature shall appear on any bonds or coupons shall cease to be such officer before the delivery of such bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if he had remained in office until such delivery. The bonds may be issued in coupon or in registered form or both, as the Authority may determine, and provision may be made for the registration of any coupon bonds as to principal alone and also as to both principal and interest, for the reconversion into coupon bonds of any bonds registered as to both principal and interest, and for the interchange of registered and coupon bonds. The Authority may sell such bonds in such manner, either at public or private sale, and for such price as it may determine will best effect the purposes of this chapter.

The proceeds of the bonds of each issue shall be used solely for the payment of the cost of the projects for which such bonds shall have been issued, and shall be disbursed in such manner and under such restrictions, if any, as the Authority may provide in the resolution authorizing the issuance of such bonds or in the trust agreement hereinafter mentioned securing the same. If the proceeds of the bonds of any issue, by error of estimates or otherwise, shall be less than such cost, additional bonds may in like manner be issued to provide the amount of such deficit, and, unless otherwise provided in the resolution authorizing the issuance of such bonds or in the trust agreement securing the same, shall be deemed to be of the same issue and shall be entitled to payment from the same fund without preference or priority of the bonds first issued. If the proceeds of the bonds of any issue shall exceed such cost, the surplus shall be deposited to the credit of the sinking fund for such bonds, or may be applied to the payment of the cost of any additional project or projects.

Prior to the preparation of definitive bonds, the Authority may, under like restrictions issue interim receipts or temporary bonds, with or without coupons, exchangeable for definitive bonds when such bonds shall have been executed and are available for delivery. The Authority may also provide for the replacement of any bonds which shall become mutilated or shall be destroyed or lost. Bonds may be issued under the provisions of this chapter without obtaining the consent of any department, division, commission, board, bureau or agency of the Commonwealth, and without any other proceedings or the happening of any other conditions or things than those proceedings, conditions or things which are specifically required by this article.

Trust agreement securing bonds

In the discretion of the Authority any bonds issued under the provisions of this article may be secured by a trust agreement by and between the Authority and a corporate trustee, which may be any trust company or bank having the powers of a trust company within or without the Commonwealth. Such trust agreement or the resolution providing for the issuance of such bonds may pledge or assign the revenues to be received, but shall not convey or mortgage any project or any part thereof. Such trust agreement or resolution providing for the issuance of such bonds may contain such provisions for protecting and enforcing the rights and remedies of the bondholders as may be reasonable and proper and not in violation of law, including covenants setting forth the duties of the Authority in relation to the acquisition of property and the acquisition, construction, establishment, improvement, extension, enlargement, maintenance, repair, operation and insurance of the project or projects in connection with which such bonds shall have been authorized, the rates and fees to be charged, the custody, safeguarding and application of all moneys, and conditions or limitations with respect to the issuance of additional bonds. It shall be lawful for any bank or trust company incorporated under the laws of the Commonwealth which may act as depository of the proceeds of bonds or of revenues to furnish such indemnifying bonds or to pledge such securities as may be required by the Authority. Any such trust agreement may set forth the rights of action by bondholders. In addition to the foregoing, any such trust agreement or resolution may contain such other provisions as the Authority may deem reasonable and proper for the security of the bondholders. All expenses incurred in carrying out the provisions of such trust agreement or resolution may be treated as a part of the cost of the operation of the project or projects.

§ 2.1-234.16

Rents, fees and charges for services or use of facilities; use and disposition of revenues

The Authority is hereby authorized to fix, revise, charge, and collect rates, fees, and other charges for the use of or for the services and facilities furnished by each project and the different parts thereof, and to contract with any agency, commission or political subdivision desiring the use of any part thereof, and to fix the terms, conditions, rents, and rates of charges for such use. Such rates, fees, and other charges shall be so fixed and adjusted so that revenues of the Authority, together with any other available funds, will be sufficient at all times to pay (i) the cost of maintaining, repairing and operating such project or projects and (ii) the principal of and the interest on such bonds as the same shall become due and payable, and to create reserves for such purposes. Such rates, fees, and other charges shall not be subject to supervision or regulation by any other commission, board, bureau, or agency of the Commonwealth. The revenues derived from the project or projects in connection with which the bonds shall have been issued, except such part thereof as may be necessary to pay such cost of maintenance, repair and operation and to provide such reserves therefor as may be provided for in the resolution authorizing the issuance of such bonds or in the trust agreement securing the same, shall be set aside at such regular intervals as may be provided in such resolution or such trust agreement in a sinking fund which is hereby pledged to, and charged with, the payment of the principal of and the interest on such bonds as the same shall become due, and the redemption price or the purchase price of bonds retired by call or purchase as therein provided. Such pledge shall be valid and binding from the time when the pledge is made, the revenues or other moneys so pledged and thereafter received by the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of any such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof. Neither the resolution nor any trust agreement by which a pledge is created need be filed or recorded except in the records of the Authority. The use and disposition of moneys to the credit of such sinking fund shall be subject to the provisions of the resolution authorizing the issuance of such bonds or of such trust agreement. Except as may otherwise be provided in such resolution or such trust agreement, such sinking fund shall be a fund for all such bonds without distinction or priority of one over another.

§ 2.1-234.17

Moneys received deemed trust funds

All moneys received pursuant to the authority of this article, whether as proceeds from the sale of bonds or as revenues, shall be deemed to be trust funds to be held and applied solely as provided in this article. The resolution authorizing the bonds of any issue or the trust agreement securing such bonds shall provide that any officer with whom, or any bank or trust company with which, such moneys shall be deposited shall act as a trustee of such moneys and shall hold and apply the same for the purposes hereof, subject to such regulations as this article and such resolution or trust agreement may provide.

§ 2.1-234.18

Proceedings by bondholder or trustee to enforce rights

Any holder of bonds issued under the provisions of this article or any of the coupons appertaining thereto, and the trustee under any trust agreement, except to the extent the rights herein given may be restricted by such trust agreement or the resolution authorizing the issuance of such bonds, may, either at law or in equity, by suit, action, mandamus or other proceeding, protect and enforce any and all rights under the laws of the Commonwealth or granted hereunder or under such trust agreement or resolution, and may enforce and compel the performance of all duties required by this article or by such trust agreement or resolution to be performed by the Authority or by any officer thereof, including the fixing, charging, and collecting of rates, fees, and other charges.

§ 2.1-234.19

Bonds made securities for investment and deposit

Bonds issued by the Authority under the provisions of this article are hereby made securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees, and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them. Such bonds are hereby made securities which may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

§ 2.1-234.20

Revenue refunding bonds; bonds for refunding and for cost of additional projects

The Authority is hereby authorized to provide for the issuance of revenue refunding bonds of the Authority for the purpose of refunding any bonds then outstanding which shall have been issued under the provisions of this article, including the payment of any redemption premium thereon and any interest accrued or to accrue to the date of redemption of such bonds, and, if deemed advisable by the Authority, for the additional purpose of constructing improvements, extensions, or enlargements of the project or projects in connection with which the bonds to be refunded shall have been issued. The Authority is further authorized to provide by resolution for the issuance of its revenue bonds for the combined purpose of (i) refunding any bonds then outstanding which shall have been issued under the provisions of this article, including the payment of any redemption premium thereon and any interest accrued or to accrue to the date of redemption of such bonds, and (ii) paying all or any part of the cost of any additional project or projects or any portion or portions thereof. The issuance of such bonds, the maturities and other details thereof, the rights of the holders thereof, and the rights, duties and obligations of the Authority in respect of the same shall be governed by the provisions of this article insofar as the same may be applicable.

§ 2.1-234.21

Contracts, leases and other arrangements

A. In connection with the operation of a facility owned or controlled by the Authority, the Authority may enter into contracts, leases, and other arrangements with any person or persons (i) granting the privilege of using or improving the facility or any portion or facility thereof or space therein consistent with the purposes of this article; (ii) conferring the privilege of supplying goods, commodities, things, services, or facilities at the facility; and (iii) making available services to be furnished by the Authority or its agents at the facility.

In each case the Authority may establish the terms and conditions and fix the charges, rentals, or fee for the privilege or service, which shall be reasonable and uniform for the same class of privilege or service at each facility and shall be established with due regard to the property and improvements used and the expenses of operation to the Authority.

B. Except as may be limited by the terms and conditions of any grant, loan or agreement authorized by §2.1-234.23, the Authority may by contract, lease, or other arrangements, upon a consideration fixed by it, grant to any qualified person, for a term not to exceed thirty years, the privilege of operating, as agent of the Authority or otherwise, any facility owned or controlled by the Authority; provided that no person shall be granted any authority to operate a facility other than as a public facility or to enter into any contracts, leases, or other arrangements in connection with the operation of the facility which the Authority might not have undertaken under subsection A of this section.

C. In connection with a project leased to a trust instrumentality of the United States where such trust instrumentality has agreed with the Authority to pay rent which together with payments or contributions by the Commonwealth and any political subdivision are sufficient to pay the principal of and interest on the Authority's bonds issued to finance such project, the Authority may agree that such trust instrumentality shall assume all responsibility for the acquisition, construction, operation, maintenance, and repair of the project and may further agree that when the principal of all such bonds of the Authority and the interest thereon have been paid in full or provision made therefor satisfactory to the Authority, the trust instrumentality may acquire the Authority's interest in such project without payment of additional consideration.

§ 2.1-234.22**Resolutions, rules and regulations, etc**

The Authority is authorized to adopt, amend, and repeal such reasonable resolutions, rules, regulations, and orders as it shall deem necessary for the management, government, and use of any facility owned by it or under its control. No rule, regulation, order, or standard prescribed by the Authority shall be inconsistent with, or contrary to, any law of this Commonwealth or act of the Congress of the United States or any regulation promulgated or standard established pursuant thereto. The Authority shall keep on file at the principal office of the Authority for public inspection a copy of all its rules and regulations.

§ 2.1-234.23**Grants or loans of public or private funds**

The Authority is authorized to accept, receive, receipt for, disburse, and expend federal and state moneys and other moneys, public or private, made available by grant or loan or both, to accomplish, in whole or in part, any of the purposes of this article. All federal moneys accepted under this section shall be accepted and expended by the Authority upon such terms and conditions as are prescribed by the United States and as are consistent with state law; and all state moneys accepted under this section shall be accepted and expended by the Authority upon such terms and conditions as are prescribed by the Commonwealth.

§ 2.1-234.24**Exemption from taxes or assessments**

The exercise of the powers granted by this article will be in all respects for the benefit of the people of the Commonwealth, for the increase of their commerce and prosperity, and for the improvement of their health and living conditions, and as the operation and maintenance of projects by the Authority will constitute the performance of essential governmental functions, the Authority shall not be required to pay any taxes or assessments upon any project or any property acquired or used by the Authority under the provisions of this article or upon the income therefrom, and any bonds issued under the provisions of this article, their transfer and the income therefrom (including any profit made on the sale thereof) shall at all times be free from taxation within the Commonwealth; provided that the exemption hereby granted shall not be construed to extend to persons conducting on the premises of a facility businesses for which local or state taxes would otherwise be required.



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§ 2.1-234.25**Governing body of Authority**

The powers of the Authority shall be exercised by a governing body consisting of the members of the Authority acting as a board. The board shall elect in each odd-numbered year from their number a chairman, a vice-chairman, a treasurer and a secretary. In the absence of the chairman, the vice-chairman shall exercise the powers and duties thereof. The offices of secretary and treasurer may be combined. The board may elect such other officers from its own membership or from without as it deems appropriate.

Four members shall constitute a quorum of the board for the purpose of organizing the Authority and conducting the business thereof and for all other purposes, and all actions shall be taken by vote of a majority of the members of the Authority, unless in any case the bylaws shall require a larger number.

The board shall have full authority to manage the properties and business of the Authority, and to prescribe, amend, and repeal bylaws, rules, and regulations governing the manner in which the business of the Authority may be conducted, and the powers granted to it may be exercised and embodied. The board may assign to the Treasury Board or the State Treasurer such powers and duties as it may deem proper.

§ 2.1-234.26**Moneys of Authority**

All moneys of the Authority, from whatever source derived, shall be paid to the treasurer of the Authority. Such moneys shall be deposited in the first instance by the treasurer in one or more banks or trust companies, in one or more special accounts, and each of such special accounts shall be continuously secured by a pledge of direct obligations of the United States of America or of the Commonwealth, having an aggregate market value, exclusive of accrued interest, at all times at least equal to the balance on deposit in such account. Such securities shall either be deposited with the treasurer or be held by a trustee or agent satisfactory to the Authority. All banks and trust companies are authorized to give such security for such deposits. The moneys in such accounts shall be paid out on the warrant or other order of the treasurer of the Authority, or of such other person or persons as the Authority may authorize to execute such warrants or orders. The Auditor of Public Accounts of the Commonwealth, and his legally authorized representatives are hereby authorized and empowered from time to time to examine the accounts and books of the Authority, including its receipts, disbursements, contracts, leases, sinking funds, investments, and any other matters relating to its finances, operation and affairs.

§ 2.1-234.27**Competition in award of contracts; contractors to give surety; terms of contracts**

If any project or any portion thereof or any improvement thereof shall be constructed, or furnished pursuant to a contract and the estimated cost thereof exceeds \$10,000, such contract shall be awarded to the lowest responsible bidder after advertisement for bids. The Authority may make rules and regulations for the submission of bids and the construction, furnishing, or improvement of any project or portion thereof. No contract shall be entered into for construction, furnishing, or improvement of any project, or portion thereof, or for the purchase of materials, unless the contractor shall give an undertaking with a sufficient surety or sureties approved by the Authority, and in an amount fixed by the Authority in accordance with § 11-58, for the faithful performance of the contract; and such contract shall be accompanied by an additional bond for the protection of those who furnish labor and material or rental equipment for such amount and subject to the same terms and conditions as established by the Authority in accordance with § 11-58. All construction contracts shall provide, among other things, that the person or corporation entering into such contract with the Authority will pay for all materials furnished, rental equipment used and services rendered for the performance of the contract, and that any person or corporation furnishing such materials, rental equipment or rendering such services may maintain an action to recover for the same against the obligor in the undertaking as though such person or corporation was named therein, provided the action is brought within one year after the time the cause of action accrued. The additional bond shall be conditioned upon the prompt payment of actual equipment rentals and shall not be conditioned upon or guarantee payment of equipment rentals, all or any part of which, directly or indirectly, apply on the purchase price of such equipment under the terms of a bailment lease or conditional sales contract or by any other arrangement by which title to the equipment will be transferred to the contractor and the rentals form any part of the consideration.

Subject to the aforesaid, the Authority may, but without intending by this provision to limit any powers of such Authority, enter into and carry out such contracts, or establish or comply with such rules and regulations concerning labor and materials to rental equipment and other related matters in connection with any project, or portion thereof, as the Authority may deem desirable.

§ 2.1-234.28**Eminent domain; right of entry**

The Authority is hereby vested with the power of eminent domain and may exercise the same for the purposes set forth in this article. If the owner, lessee, or occupier of any property to be condemned or otherwise acquired shall refuse to remove his property therefrom or give up possession thereof, the Authority may proceed to obtain possession in any manner provided by law.

INFRASTRUCTURE

Introduction

Governor Terry E. Branstad described the mission of the Infrastructure subcommittee in his letter of July 12, 1996, to be "...to come forth with recommendations on how the State infrastructure planning and decision-making process should be managed for the benefit of all Iowans." The subcommittee, in turn, defined its charge as follows:

- Define infrastructure
- Identify 'scope' of State assets
- Recommend a method of identification and prioritization of projects
- Recommend methodology for allocation of resources

The subcommittee received and reviewed substantial written materials and heard from a number of interested persons and agencies in the process of reaching the recommendations and conclusions offered in this report.

Background

House File 2421 of the second session of the Seventy-Sixth General Assembly took a significant and historical step to address the serious infrastructure needs of the State of Iowa: the creation of a major funding mechanism, the Rebuild Iowa Infrastructure Fund (RIIF), to address the "vertical" infrastructure of the State, especially the backlog of deferred maintenance accumulated over past years.

RIIF is supported by two dedicated funding streams: (1) interest from two reserve funds of the State, and (2) annual receipts from gambling in excess of \$60 million dollars. The combined effect of these funding streams will result in approximately \$75 million dollars directed each year towards the infrastructure needs of the State (see Table 1). However, it is important to note that the funds, while dedicated, are "soft" in the sense that gambling receipts may well drop in future years, and poor economic years for the State in the future may erode the reserve funds and thus reduce the interest or, worse, become diverted in times of crisis to non-infrastructure needs. As well, one estimate of more than \$116 million in current deferred maintenance and more than \$1.6 billion in State facility overall needs over the next ten years, suggests that the funding level is not sufficient to address the scale of the problem. This is especially true in that RIIF is intended to address not only deferred maintenance, but also renovation and new construction.

Table 1
Rebuild Iowa Infrastructure Fund

Danny -
I thought
this might be
of interest
from Maher
2011

**Gambling
Receipts
(\$50 million)**

**\$75
Million
Per
Year**

**Interest
on
Reserve
Funds
(\$25 million)**

Nevertheless, the creation of RIIF is an important, bold step in moving public policy towards a serious commitment to the proper care of our huge investment in public facilities. With the adoption of this concept, Iowa will be in position to be considered one of the best managed States in the nation.

In comparison to its vertical infrastructure, the horizontal infrastructure of Iowa has enjoyed better treatment, especially due to the sizable road use tax funds that flow to the Department of Transportation (DOT) dedicated to the maintenance and construction of highways and other transportation uses. Non-transportation horizontal infrastructure, such as parks and bike trails, sewer and water lines, et. cetera., vary widely in their history of maintenance, depending in part on whether they are under public or private ownership. Horizontal infrastructure not included under DOT authority and not under private ownership will likely need future attention to assure an adequate standard of maintenance.

Rebuild Iowa's Infrastructure Fund(RIIF) Development

Now that a good beginning has been made with the establishment of RIIF, it is time to thoughtfully refine the

ongoing staffing and operational costs, as well as non-State infrastructure, thereby shifting those funds away from critical infrastructure needs of the State. RIIF funds should be used for vertical infrastructure needs of the State. RIIF should not be used for general operating expenditures or for non-state purposes.

An impartial, non-partisan system for the annual evaluation of projects is required. The purpose of such a system is to identify, based on relative criticality and objective criteria, a priority for the use of RIIF funds. The funds must be balanced among goals of: (1) elimination of deferred maintenance backlogs (2) renovation of older facilities, and (3) construction of new facilities to replace worn out facilities or to embrace growth, new programs and services. Legitimate strategies for addressing deferred maintenance include not only repair and replacement, but also elimination of the problem areas through renovation, or abandonment and demolition, or replacement by new construction.

It is essential to channel all RIIF funding for vertical infrastructure needs through one authority to assure a well-balanced and unbiased determination of needs. This specifically includes all State-funded maintenance and capital improvements for vertical infrastructure of the State, including Board of Regents institutions, General Services facilities, et. cetera. It is important to note that there is no desire to interfere with the internal agency prioritization of projects; these are often influenced by extenuating factors best known and evaluated by the specific agency. However, it should be the duty of the Board as established through a recommendation later in this report to weigh total facility needs against the funding made available by the Legislature and Governor and to allocate the funds in a balanced program, on the basis of objective criteria.

Although "Rebuild" in the title could be narrowly interpreted to apply only to facilities already existing, the subcommittee concluded the Legislature intended that new construction also be included in the scope of responsibility and funding. This is especially appropriate as it presents the opportunity to create a mandate for new construction to include a strong commitment to future ongoing maintenance, thus assuring the backlog of deferred maintenance does not arise again. The affordability of new construction must be carefully balanced with the pressing reality of properly caring for investments already in place.

A fundamental shift in the public attitude and commitment needs to be encouraged towards making the proper care and maintenance of our enormous investment in existing infrastructure a priority needs to be encouraged. Because the deferred maintenance backlog is currently so large for State-owned infrastructure, it is not advisable to divide scarce resources to address the problem of other non-State-owned public facilities. Thus, RIIF must be limited to State-owned vertical infrastructure. However, a statewide system of common definitions, record keeping practices and prioritization can help all governments work together to exchange information, adopt common terminology, seek efficiencies and foster a broad public awareness and commitment to properly funding maintenance.

The design of an effective system must focus on long-term planning. Required elements include clear definitions, a centralized data base with up-to-date assessments of facilities, and a resolve to bring under control the skyrocketing deferred maintenance backlog. Public policy must simultaneously address the elimination of deferred maintenance backlog and protection of our assets for the future. The system must protect long-term strategy and process from being diluted by short-term diversions of scarce funds.

Attachment E, page 49, shows a breakdown of the FY 1996-1997 expenditures appropriated by the Legislature and approved by the Governor during the first year of RIIF funding. These expenditures are cross-referenced into four categories: maintenance, new construction, technology, and other. Of the total FY 1996-1997 expenditures, only 26.6 percent of the funds are directed towards maintenance and renovation.

It is essential to create an ironclad commitment to properly fund routine and preventive maintenance and repair and replacement of all State-owned facilities. This is particularly true of proposed new construction, where the decision whether to build new facilities must recognize the ongoing costs of operations, including responsible maintenance.

There are four major issues that must be addressed in refining the opportunities presented by establishment of the Rebuild Iowa Infrastructure Fund (RIIF).

ISSUE 1: CLEAR DEFINITIONS

Clear definitions of RIIF terminology are required so that State agencies and departments, as well as other public bodies, can exchange information and make rational and intelligent decisions. It may be desirable to include some definitions in the statute, while others may be better included in promulgated rules to more easily allow updating.

Current Status

The Department of Management internally establishes definitions that are used to add clarity in collecting capital budget requests. Their purpose is to capture different cost elements in a capital budget request, not to summarize projects by type. These definitions are not meant to set a statewide standard for all agencies to use in their daily operations.

Two other factors have influenced the lack of statewide definitions for capital projects. First, bonding for capital projects is normally for specific projects and procedurally requires project-specific formal definitions of allowable expenditures. Second, the State of Iowa has historically been unable to make funds available on a recurring basis to address infrastructure needs. With only intermittent funding, past infrastructure needs have had to attain a critical status before funds were appropriated to meet these needs, a form of "crisis management." Now that a consistent and recurring source of funds has been identified and the need to more adequately address the infrastructure of the State is widely recognized, formal definitions are required to aid in effectively and consistently managing our scarce funds.

Vertical infrastructure projects are presently defined by Section 8.57, subsection 5, paragraph c, *Code Supplement 1995*, as amended by the 1996 General Assembly:

Moneys in the fund in a fiscal year shall be used as directed by the general assembly for vertical infrastructure projects. For the purposes of this subsection, "vertical infrastructure" includes only land acquisition and construction, major renovation and major repair of buildings, all appurtenant structures, utilities, site development, and recreational trails. "Vertical infrastructure" does not include routine, recurring maintenance or operational expenses or leasing of a building, appurtenant structure, or utility without a lease-purchase agreement. However, appropriations may be made for the fiscal years beginning July 1, 1997, and July 1, 1998, for the purpose of funding the completion of Part III of the Iowa Communication Network.

As the statute is presently written, all capital projects qualify as vertical infrastructure projects except projects for routine maintenance, operational expenses and leased office space. An attempt to prioritize projects by assignment of projects into listed categories is not yet possible due to the absence of the categories being defined. Section 8.3A, *Code of Iowa*, "Capital Project Planning and Budgeting - Governor's Duties," and Section 8.6(13), *Code of Iowa*, "Capital Project Budgeting Requests," likewise fail to define the basic categories used in classifying and summarizing capital project budget requests.

Research Summary

The National Association of State Budget Officers ("NASBO") published a 1992 survey covering capital budgeting issues. NASBO's first recommendation for good practices in capital budgeting is "to establish a clear definition of expenditures within the capital budget."

Financial World magazine published a report ranking all states in infrastructure maintenance, as well as financial management and managing for results. While Iowa scored well in the other categories, it was far behind in its treatment of infrastructure. In the *Financial World* article, Iowa ranked sixth among states, receiving high marks in the areas of financial management and managing for results, but a less than desirable score for infrastructure maintenance. The authors note that Iowa "has racked up substantial deferred maintenance . . ."

States which scored high in infrastructure management were studied by the subcommittee for their processes, prioritization and definitions. The states of Utah, Colorado, South Dakota and Virginia were chose for further review due to their infrastructure management systems.

Recommendations

1. The first step is to amend the present statute to provide a foundation upon which an infrastructure system can be constructed. Section 8.57, subsection 5(c) should be amended to read as follows:

Moneys in the fund in a fiscal year shall be used for vertical infrastructure as determined by the Rebuild Iowa Infrastructure Fund Board. Moneys in the fund shall be used for (1) emergency repair and replacement, (2) deferred maintenance, (3) renovation, and (4) new construction of vertical infrastructure. Moneys in the fund will not be used for (1) repair and replacement, (2) operations, (3) routine maintenance, (4) preventative maintenance, (5) leasing of vertical infrastructure, (6) debt service for vertical infrastructure, or (7) the Iowa Communications Network.

A revised statute is necessary upon which to build a workable infrastructure system. Definitions are required in order to clarify the intent and allow consistency in the implementation of RIIF under the statute. In addition, the definitions provide the opportunity to establish a broad public standard for record keeping, data collection, and a common vocabulary for all public bodies in the State.

2. The following definitions should either: (1) be adopted in the statute, or (2) be adopted by rule by the RIIF Board.

VERTICAL INFRASTRUCTURE : Facilities that are predominately architectural in nature, have an element of aesthetics, and are not merely functional in nature. This specifically includes buildings and related site improvements; the finishes, systems, equipment and property that serve the building and site; and statues and monuments.

HORIZONTAL INFRASTRUCTURE : Facilities that are predominately functional in nature and located at ground level, under ground level, or parallel to and above ground level. This specifically includes transportation facilities, such as highways, bridges, streets, and bike trails; public works utility distribution systems, such as sewer, water and waste water pipes and water retention facilities such as dams; technological utility distribution systems, such as telecommunication devices, transmission systems and towers; and utilitarian buildings directly related to the above facilities, such as maintenance garages and water treatment plants.

EMERGENCY REPAIR AND REPLACEMENT : Unscheduled work which, due to failure or impending failure, requires immediate action to restore the originally anticipated service life of a facility, finish, system, equipment or property.

OPERATIONS : Routine, recurrent, periodic or scheduled work and materials required to operate a facility, its systems, equipment or property. Operations include all activities related to normal performance of a facility, including utilities, administration, janitorial staff, supplies, routine maintenance, preventive maintenance and repair and replacement of worn out elements.

- **ROUTINE MAINTENANCE** : The regular care and upkeep of facilities, finishes, systems, equipment and property necessary to realize the useful life of the asset. It does not extend the originally anticipated useful life of the asset, nor does it directly add to the value of the asset.
- **PREVENTIVE MAINTENANCE** : A proactive, planned program of regular and cyclical maintenance designed to prevent failures of facilities, finishes, systems, equipment and property and to maximize the originally anticipated useful life.
- **REPAIR AND REPLACEMENT** : Scheduled work, due to predicted or impending failure, to restore a damaged or worn out finish, system, equipment or property to a normal operating condition. Repair and replacement does not include improvements to the asset. Repair and replacement are

curative actions, while maintenance is a preventive action.

DEFERRED MAINTENANCE : The aggregation of unfunded routine maintenance and repair and replacement, but not preventive maintenance, which was not performed in a timely manner due to lack of available funding, lower priority or other recognized delaying factors. Deferred maintenance shall be defined as routine maintenance and repair and replacement included in the operations budget during at least two successive fiscal years, but not accomplished due to recognized delaying factors.

NEW CONSTRUCTION : The construction of a new building and related site work meeting the definition of vertical infrastructure. Project costs for new construction shall include, but not be limited to, land acquisition; building and site construction costs; finishes, systems and equipment for the building and site; professional services for predesign and design, environmental testing and surveys; and inspections related to the project.

RENOVATION : the total or partial modification of a vertical infrastructure's internal arrangement or other physical characteristics to higher standards of quality or efficiency so it can be used more effectively for its designated purposes. Renovation upgrades and extends the design service life of the facility and adds to the value of the asset.

3. The following categories of vertical infrastructure should be funded from RIIF:

- Emergency repairs and replacements
- Deferred maintenance
- Renovation, and
- New construction.

The following should not be funded from RIIF:

- Horizontal infrastructure (e.g., the DOT)
- Operations, including routine and preventive maintenance, and repairs and replacements
- Leasing of vertical infrastructure
- Debt service for vertical infrastructure, and
- Iowa Communications Network.

As noted later in this report, operations must be adequately funded in each agency's annual budget.

ISSUE 2: RATIONAL DECISION-MAKING PROCESS

A rational decision-making process is required for identifying RIIF expenditures.

Current Status

The current method of directing funds for infrastructure lacks focus and is not based on centralized, data-driven, long-range strategic approach. Under the current method, the danger of popularity and politics overpowering legitimate priorities is significant. Strategic priorities must drive the system.

Research Summary

The State of Utah is considered an excellent example of what it takes for strong infrastructure management. Utah was rated highest by the article in *Financial World*. Key conclusions from the authors of the article include:

1. The maintenance of public assets has historically had very little in the way of public constituency, and therefore needs to be protected and de-politicized as much as possible.

2. Good decision-making requires adequate information. It is important for states to understand the level of deferred maintenance, the further impact of deferring maintenance and of continued under-funding of infrastructure.
3. Long-term planning is vital to appropriately deal with State assets. Otherwise, current political decisions can too easily transfer infrastructure problems into the future.
4. While decentralization in dealing with infrastructure may be acceptable, there needs to be a high degree of central oversight and coordinated data collection so that decision makers have adequate information.
5. Prioritization is inevitable and essential due to scarce funds.

In the area of infrastructure, the State of Utah was one of only four states receiving an "A" rating in *Financial World*. Specifically noted was the process of utilization of a statewide board, the Utah State Building Board. This Board is comprised of eight members, with seven being private citizens appointed by the Governor, and the eighth being the Director of the Governor's Office of Planning and Budget, serving ex-officio. Staff assistance to the Board is provided by the Division of Facilities Construction and Management. The Board recommends priorities for present and future State building needs and prepares an annually-updated Five-Year Building Program that includes priority recommendations for Capital Development (new construction or major remodeling).

The Board also allocates appropriations for capital improvements to specific projects. Capital improvements include improvements to existing facilities. A computerized program is utilized to compile a list of agency priorities for improvement projects. The Board travels the State and makes on-site visits to agencies and institutions. After the Legislature appropriates funds for improvements, agency hearings are conducted, and a prioritized list is prepared by staff and the Board. Following the hearings, the Board takes action on the final list, and funds are allocated to projects on the basis of critical need.

Other powers and duties of the Board include review and approval of agency master plans, recommendations on necessary statutory changes, establishment of design criteria and planning and construction standards and procedures, preparation of an annual leased space report, and adoption of rules and regulations.

In *Iowa Infrastructure '95: A Report of Infrastructure Needs in the State of Iowa*, the authors recommend that the State of Iowa establish a Capital Asset Management Commission. This Commission would be a resource for agencies and entities responsible for infrastructure statewide. The proposed Commission would:

- Work with State agencies to develop facility audits for all classes of vertical infrastructure.
- Assist agencies in developing capital asset management programs.
- Collect and analyze facilities audit information and report on the condition of capital assets and renewal progress.
- Develop prioritization plans for addressing critical needs to protect deteriorating capital assets.
- Assist the Legislature and other agencies in the development of funding sources and funding mechanisms for consistent attention to capital renewal.
- Assist agencies in establishing maintenance programs designed to prevent accumulation of asset deterioration.
- Maintain a database of project costs for typical maintenance and construction activities.
- Assist infrastructure agencies in selecting appropriate delivery systems for projects.

The Iowa Department of Transportation is an example of an established infrastructure system. It has a citizens commission that develops and coordinates a comprehensive policy for the State of Iowa. Commission duties include, but are not limited to, identification of needs for transportation facilities and services, and identification of methods of improving transportation safety. The Commission has extensive authority in the process of allocating resources. The Commission consists of seven members, not more than four of whom may be from the same political party, appointed by the Governor for multi-year terms. Appointments are subject to confirmation by the Senate.

Recommendations

1. A commission to be called the Rebuild Iowa Infrastructure Board should be established under Section 8.57.5 of the *Code of Iowa*. The Board should consist of seven citizen members, some of whom have knowledge and expertise in facilities and the construction industry. Not more than four should be from the same political party. The Governor should appoint the members of the Rebuild Iowa Infrastructure Board in staggered six year terms, and the members should be subject to confirmation by the Senate.
2. The *Code of Iowa* should be amended to provide necessary staff support to the Rebuild Iowa Infrastructure Board.
3. The monies in the Rebuild Iowa Infrastructure Fund(RIIF) should be used as directed and allocated by the Rebuild Iowa Infrastructure Board for the construction and maintenance of the vertical infrastructure of State agencies. "State agencies" is defined in Iowa Code Section 8.3A. To avoid undue political influence and to acknowledge the objective selection process, the Governor and the Legislature should be allowed only to veto projects on the approved project list prepared by the Board, and should not be permitted to add any projects not recommended by the Board.
4. The mission of the Rebuild Iowa Infrastructure Board should be to enhance the efficient management and protection of the investment of the State in vertical infrastructure. All State agencies should be required to assist and cooperate with the Board in its mission.
5. Duties of the Board should include:
 - Confer with State agencies and direct the management and development of the vertical infrastructure needs of the State,
 - Allocate the funds of RIIF. The Board should give preference in the following order:
 - Emergency repair and replacement
 - Deferred maintenance
 - Renovation
 - New construction
 - In allocating funds, the Board should place a high priority on the following criteria, in no order of preference:
 - Life safety and regulatory compliance
 - Accessibility for disabled persons
 - Historic preservation
 - Energy conservation
 - Develop a fair and equitable prioritization method based upon a broad view of the needs of the State. This should include, but not be limited to, guidelines, procedures, policies and priorities in pursuing a comprehensive, statewide strategic facilities plan. The Board may wish to subdivide the issue of deferred maintenance into categories of "deteriorating" and "non-deteriorating" in order to direct funds to the most critical needs.
 - Coordinate the development of uniform criteria and definitions to promote best practices in facility management. This should include increasing the responsibility and accountability of State officials to maintain vertical infrastructure by requiring periodic facilities assessments to be submitted to the Board

for review.

- Develop and maintain, in cooperation with all State agencies, a comprehensive, statewide five-year strategic facilities plan for maintenance, repair and replacement, renovation and new construction of vertical infrastructure. This plan should be updated annually and revised as necessary. State agencies should annually submit to the Board their goals and objectives regarding infrastructure maintenance and development.
- Review State agency proposals and their priorities for qualifying projects for funding under RIIF, and make policy decisions regarding the projects to be funded from the appropriated funds available.
- Cause staff to publish an annual list of prototypical replacement costs for the various types of State facilities based on annual national publications.
- Develop a data base system that provides information for the Board to carry out its mission. This includes, but is not limited to, a central data base of all State infrastructure assets and facility assessment information.
- Recommend any statutory changes necessary to ensure an effective, well-coordinated infrastructure program.
- Make, execute and effectuate agreements with any governmental agency or private party necessary to accomplish the purposes of this program.
- Apply for and accept gifts, grants, appropriations or contributions to the RIIF.
- Receive funds from the federal government for deposit into the RIIF, authorize disbursements, and ensure full participation by the State of Iowa in any federal program which relates to development of infrastructure.
- Adopt any necessary rules pursuant to Chapter 17A.
- Administer RIIF and direct disbursements from the Fund.
- RIIF funds recipients shall account to the Board for RIIF expenditures.

ISSUE 3: IDENTIFYING PROJECTS

An accurate and equitable method is required to identify projects.

Current Status

State departments are currently required to identify their capital budget needs for the succeeding five years, internally rank all such needs, and submit their priority list to the Department of Management. The Department of Management compiles all capital requests into the *Five-Year Capital Project Priority Plan*, which is then presented to the Governor and the Legislature.

Each Department maintains its own asset inventory, and no standardized, statewide system exists to direct how departments are to maintain their inventory list or how needs are to be identified. Since no central data base is maintained, questions cannot be easily answered as to:

- The total value and current replacement value of State assets,
- The age and condition of State assets and their major components,
- The square footage totals for all State buildings, or
- The history of spending on routine and preventive maintenance, repair and replacement and deferred maintenance.

An inventory is maintained by the Department of General Services for assets located on or near the State Capitol complex. General Services works closely with the Department of Corrections and the Department of Human Services on capital projects and has a basic understanding of their assets. Examples of other departments and boards that have their own capital asset inventory include the Department of Natural Resources, Department of Public Defense, Department of Public Safety, Board of Regents, the State Fair Board and the Department of Cultural Affairs. However, there is little coordination, commonality of definitions, or information practices among the Departments.

Research Summary

According to a 1992 survey, all states assign the responsibility of generating capital budget requests to their State agencies and departments.

Iowa Infrastructure '95 states that:

"Many of the agencies and entities responsible for Iowa's infrastructure lack the basic skills and knowledge necessary to evaluate capital needs."

"Frequently, the lack of planning and limited funds create maintenance backlogs and unattended facility deficiencies. These facilities deteriorate, resulting in deferred maintenance and a significant financial burden for corrective measures."

The same authors also commented on the quality of data received and the environment that exists surrounding capital requests:

...numbers tend to reflect what they (i.e., *State agencies*) think they could get in the way of dollars. They know they have needs, but are hoping for money. Much beyond the five-year projection, the estimates get soft. (State agencies) deal with what they think is political reality. The need is greater than the projections...

Recommendations

1. A data base containing a comprehensive, central inventory of all State vertical infrastructure assets should be established.

The format of the data base should be simple to avoid conflict with established inventory systems currently used by Departments, if any, but participation in the data base should be mandatory. If necessary, compliance can be accomplished by the Department restating a summary of their existing data in the proper format. However, the Department should modify and adapt its practices to the definitions and methodology suggested by this Report.

2. A capital asset management program should be mandatorily established, including the use of facility audits to effectively assess the needs of the vertical infrastructure assets of the State. A facility audit is an essential assessment tool used to provide diagnostic information about the condition of a vertical infrastructure asset and its components. The implementation of the facility audit process should take into consideration:

- Consistent level of detail to have a basis of comparison across all State vertical infrastructure facilities.
- Recognition of staff expertise available to conduct the audit.
- The cost of data collection and maintenance of the data base.
- The need for a user guide and training of staff responsible for the facility audit.
- Structural aspects of a facility to audit.
- The frequency of performing the facility audit.
- The maintenance and use of the data collected.

3. A three-tiered assessment system should be devised, where the first and simplest level requires answers in a questionnaire format designed to be accomplished by a layperson. If necessary, a training manual or videotape can be used to explain the system. The intent of this level is to allow participation in the statewide program without incurring extensive, onerous costs of compliance. The second level is a sophisticated staff-level detail, such as the Regents institutions and Department of General Services already have in place. The third level is an expert professional level assessment, prepared on a project-by-project basis by professional architects or engineers. Each successive level represents a more detailed version than the one before it, but all are able to be meaningfully reduced back to the first level by summary for comparison purposes and inclusion in the central data base. Attachment F, page 50-F, is a suggested facilities audit program.

ISSUE 4: ASSIGNMENT OF PRIORITIES AND ALLOCATION OF SCARCE RESOURCES

An equitable method is needed to assign priorities to projects and allocate scarce resources.

Current Status

The process of assigning priorities to State agency requests for capital projects on a statewide basis exists in Section 8.6(14), paragraph a, *Code of Iowa*, which directs the Department of Management to provide:

A detailed list of all proposed capital projects for all State agencies, which the Department of Management believes should be undertaken or continued for at least the next five years.

The statewide prioritization method is developed by staff in the Budget Division of the Department of Management and the Director of State Budgets. This method results in a list that is required to be submitted to the legislative Capital Projects Committee by November 1 of each year. A copy of the list is also supplied to the Governor. The Legislature and the Governor are not bound by the priorities assigned by the Department of Management, and may add or delete projects and change the amount attributable to a project.

Section 8.3A, subsection 2, paragraph a, *Code of Iowa* directs the Governor to:

Develop criteria for the evaluation of proposed capital projects which shall include but not be limited to the following:

1. Fiscal impacts on costs and revenues,
2. Health and safety effects,
3. Community economic effects, *
4. Environmental, aesthetic, and social effects, *
5. Amount of disruption and inconveniences caused by the capital project, *
6. Distributional effects,
7. Feasibility, including public support and project readiness, *
8. Implications of deferring the project,
9. Amount of uncertainty and risks,
10. Effects on interjurisdictional relationships,
11. Advantages accruing from relationships to other capital project proposals,
12. Private sector contracting for construction, operation, or maintenance.

However, no formal written document is required to be published relative to this activity.

Research Summary

The criteria used by the Board of Regents in prioritizing their capital budget requests include the following, presented in random order:

- Linkage with strategic plan,
- Priority assigned to the project the preceding year,
- Planning had previously been funded,
- Consistency with the institutions' goals,
- Impact of operating costs, and
- Safety concerns.

The Department of Transportation uses an extensive computer model, perfected over a number of years, to prioritize projects and allocate dollars among projects. The DOT process strives to remove subjectivity from the determination of projects to be funded, due to the importance of demonstrating to all stakeholders that the Commission is not arbitrarily choosing projects. The states of Utah, Colorado, South Dakota, and Maryland

also utilize priority methodologies. The authors of *Iowa Infrastructure '95* state that:

"The Legislature and the governor has (sic) responded with the development of an initial mechanism for providing a dedicated funding stream for State vertical infrastructure facilities. The funds are insufficient to meet the needs and it is likely that the additional needs created each year will outpace the growth of the fund. It is imperative that the funds available be directed at those areas with the most critical needs and those facilities in the greatest danger."

Recommendations

1. All vertical infrastructure projects to be funded by RIIF should be prioritized using the following order of preference, under the theory that present assets must be cared for first before new projects are taken on:

- Emergency repair and replacement
- Deferred maintenance
- Renovation
- New construction

2. The prioritization process should highly value the following criteria as applied to the above order of preference:

- Life safety and regulatory compliance
- Accessibility for disabled persons
- Historic preservation
- Energy conservation

3. The prioritization methodology and the preservation and care of infrastructure assets should be placed into the mission and goal statements of the State.

4. As deferred maintenance accelerates asset decline. The Governor and the Legislature should assure that adequate resources are included in all departments' operating budgets to meet routine maintenance, preventive maintenance and repair and replacement needs. All vertical infrastructure assets should include a minimum of 1.5 percent of its current replacement value within its agency's annual operations budget as a commitment to annual routine and preventive maintenance. In addition, a reserve fund based on a minimum of 3.5 percent of current replacement value of the assets of the State should be created (over a period of years, if necessary) to provide funds for repair and replacement of finishes, systems, equipment and property over the design life of such assets.

5. At the time a new vertical infrastructure project is proposed to the Board for funding, a statement of projected operations cost, including routine maintenance, preventive maintenance, and repair and replacement, should be required, along with an identified and dedicated source of revenue to fund those costs. Alternatively, an interest-bearing escrow account or endowment may be established at the time of initial funding of the project, calculated on a net present value basis so that the principal and interest, adjusted to the anticipated years spent, will equal the minimum values indicated above over the life of the facility.

6. Preference should be given to funding the preservation of existing vertical infrastructure over the funding of new construction, unless such preservation is deemed disproportionately expensive. In any case, special preference should be shown for the preservation of designated properties of architectural or historic significance.

CONCLUSION

The Governor and the Legislature, by their leadership and the adoption of RIIF, have provided the State with a unique opportunity to address vertical infrastructure needs. The needs are critical. Were it not for the category of infrastructure management, Iowa would be a contender for the title of best managed State in the union. Most importantly, adopting and implementing the recommendations of this Report will enable the State's vertical infrastructure to be optimally managed for the benefit of all Iowans.

**REBUILD IOWA INFRASTRUCTURE FUND(RIIF)
FISCAL YEAR 1996-1997**

Capital Project	Total Amount	Project Classification by Type		
		Maintenance	New Construction	Technology
Regents' Capital Requests	\$51,000,000		\$51,000,000	
● ICN Part III	20,800,000			\$20,800,000
School Technology	15,000,000			\$15,000,000
Capitol Exterior Renovation	9,300,000	\$9,300,000		
General Services: State Facilities Maintenance	6,500,000	\$6,500,000		
Old Historical Building Renovation	5,400,000	\$5,400,000		
State Fair Board	5,000,000	\$5,000,000		
DED: Physical Infrastructure Financial Assistance	3,900,000			
Prison Construction Debt Service	3,179,500		\$3,179,500	
Lucas Building -- Renovation	3,100,000	\$3,100,000		
DNR: CCC & WPA Projects	3,000,000	\$3,000,000		
Capitol Interior Renovation	2,800,000	\$2,800,000		
DED: Physical Infrastructure Program	2,000,000			
Recreational Trails	1,000,000			
DHS: Training/Technology	818,000			\$818,000

DHS: X-PERT Computer System		790,000				\$790,000	
Veterans Affairs Commission		585,373			\$500,000	\$85,373	
Armory Maintenance		567,000		\$567,000			
Dubuque Museum		500,000			\$500,000		
County Fairs		495,000		\$495,000			
DPS: IOWA System Upgrade		300,000				\$300,000	
DPS: AFIS Maintenance		222,155				\$222,155	
DOC: ICN link to Clarinda Facility		150,000				\$150,000	
Terrace Hill Projects		150,000		\$150,000			
Lucas Building -- Tunnel		100,000		\$100,000			
DGS: Infrastructure Staffing		50,000					
	Total	\$136,707,028		\$36,412,000	\$55,179,500	\$38,165,528	

● : A small portion of this amount will address Fire/Safety issues and Deferred Maintenance.

Note that the Legislature also enhanced the RIIF fund for FY 1996-1997 with additional funding due to the added burdens of financing technology, debt financing and other needs. The statute creating RIIF should be amended to clarify its use exclusively for vertical infrastructure projects. Technology infrastructure, horizontal infrastructure, debt financing, and operations should not be a part of RIIF. The subcommittee recommends that each of these have a process of consideration and commitment of funding resources separate from RIIF.

A Facilities Audit

Introduction

What gets measured gets managed. This is an appropriate theme for understanding why a system of auditing the condition of our state vertical infrastructure facilities is needed. The needs in Iowa for funding to rebuild and maintain our vertical infrastructure have been documented through two studies by Iowa State University. This documented needs assessment has raised the awareness of the magnitude of the problem and provided some insight into the areas where the need is greatest. The legislature and Governor have responded with the development of an initial mechanism for providing a dedicated funding stream for state vertical infrastructure facilities. The funds are insufficient to meet the needs and it is likely that the additional needs created each year will outpace the growth in the fund. It is imperative that the funds available be directed to those areas with the most critical needs and those facilities in the greatest danger. The facilities audit provides a tool for making an assessment and supporting the annual decision process for funding of the vertical infrastructure needs.

The facilities audit is a tool which is used to measure the conditions of a set of facilities to provide diagnostic information about the condition of various system, support projects of deterioration of the facility under different maintenance conditions, and provide information for project future needs for rehabilitation and facility replacement. The facility audit should be developed at a common level of detail and should be simple and economical to apply. The goal is not to divert scarce resources from fixing problem, but rather to support decision making so that the investment the state has made in vertical facilities can be protected. A facilities audit is simply a tool of good physical facilities stewardship and runs parallel with good fiscal management and stewardship.

Framework

The attempt in this document is to provide a framework for the approach that the State should take in developing a facilities audit approach that will fit its needs for the vertical facilities. The framework includes several important elements. These are described below.

Level of Detail - A consistent level of detail is necessary to have a basis of comparison across the full range of state vertical infrastructure facilities. This level should be established with full recognition of the staff support available to conduct the audit and with deliberation and judgment as to the costs for data collection and maintenance on the database and the benefits and uses of the data in decision making and management of the maintenance, rehabilitation, and renovation to support program needs.

It is recommended that a level of detail be selected that can be applied by the person responsible for the facility within state government. The system should have a step-by-step guide for consistency and training should be provided so that a layperson can apply the process to facilities for which they have responsibility. Once this approach is being applied across all state facilities, it may be desirable to consider additional detail for future management needs.

Areas to Examine - The areas to examine should be delineated in broad terms related to the criticality of protecting the vertical infrastructure asset. The areas that are suggested include the following:

The Building Envelope Building Systems
Foundation Electrical
Structural Elements Mechanical
Walls Lighting
Glass and Doors Fire and Security
Roof Communications
Vertical Transportation

Interior Finishes

Wall Coverings and Pain
Floor Coverings
Cabinets and Furnishings

Life Safety issues should be addressed as most critical and could fall into several of the categories listed above. These issues should be noted separately in the facilities audit process so they can be prioritized annually.

Frequency

The facilities audit should be performed on all facilities on a periodic basis. It is recommended that each facility be placed on a schedule for a facility audit based on its primary functional category, age, and type of construction. Reports of audits should be made annually to RIIF Board for their use in establishing an annual program.

Implementation

The facility audit process should be developed in detail as soon as possible. It is likely that this will require an investment to identify the details of the process, work with the various state agencies for the types of facilities they have, develop a workable and economical approach and develop the forms, guidance documents, and database for the state system. This process would typically take about one year to implement.

Anchorage Daily News

The Future of the Fund

A Daily News Forum on Alaska's Permanent Fund

BEYOND PERMANENT FUND, LET'S ALSO BUILD PERMANENT ECONOMY

Sunday, Oct. 13, 1996

By Walter J. Hickel

What are we going to do with \$19 billion?

I'm not talking about the \$19 billion in the Permanent Fund. It should keep growing. But if we continue with the present formula, at least \$19 billion in dividends will be paid out from the Permanent Fund by 2015. Already by December of this year, more than \$6 billion will have been given away.

That \$19 billion available for distribution may even be larger if the Permanent Fund continues to earn at the current rate. Payments between now and 2015 could be \$38 billion.

The dividend could become a false god -- a golden calf, as in the days of Moses in Egypt. Remember first that the dividend comes from our collective assets -- the land that the state of Alaska owns. We should use some of the income for collective needs.

When Congress agreed to Alaska statehood, it said Alaska's obligations will always be massive because of its small population and vast acreage. There was no way Alaska could support itself on taxes alone.

With the money from the Permanent Fund, we have the ability to meet needs we share collectively. We can do this, and keep a strong dividend program.

Let's start with the basic needs of a young, northern country: schools and roads, drinking water and sewer, power, bridges, airports and docks. A large number of Alaskans don't have these facilities, or what they have is not up to standard.

We need to think about our kids and the schools. We're way behind in equipping our schools and modernizing them for the information age. If we don't address maintenance and upgrade deferred maintenance today, we'll be far worse off 10 years from now. Right now, the University of Alaska's deferred maintenance exceeds \$150 million.

The alternative to using some of these earnings is to levy taxes. Is this what Alaskans want?

When I was governor, three years ago, we established a matching grant program. That program is now largely unfunded. In simple terms, a community decides what it wants to build -- be it a boardwalk down to the river or a new school. To get the state money, communities must match state expenditures by 10 percent to 50 percent, depending on the size of the community.

Whether you are a mother in the PTA or the mayor of an Alaska community, you should fight for this program. Permanent fund earnings should be used for quality-of-life and down-to-earth capital projects that communities need -- certainly not to operate government.

Second, we should remember there is no wealth without production. We cannot just save ourselves rich. We have a Permanent Fund, but we don't have a permanent economy.

In 1914, when Judge Wickersham convinced the federal government to build the Alaska Railroad, its primary purpose was not to make money but to open up the country. It worked.

Other parts of our state need access. The idea of a railroad from near Fairbanks into the Seward Peninsula has been discussed for years. The iron wheel and the rail is the safest environmental way to provide access in the Arctic. The

Russians have realized it for a century, and extensions to the Trans-Siberian Railroad continue still.

To provide rail access to the mineral resources of northwestern Alaska might cost \$2 billion to \$3 billion. It would allow some of the trillions of tons of coal on those lands and other valuable minerals to reach the market. These resources can create new revenue for the Permanent Fund.

The dividend program is very popular. But a permanent, vibrant economy is vitally needed. If Alaska sets the right course now, there is money to serve both masters. If we split the earnings from the Permanent Fund half and half -- to dividends and investments in our state -- fund earnings are growing so fast that it would not be long before the dividend is greater than what we're paid now.

The money we split off from the dividend program should not go to the general fund. It should go to a dedicated fund to meet our obligations of ownership. And we'll have much more to show for it.

Before we unconsciously drift into paying out five or ten times the dividends we've paid already, let's make certain the basic needs and obligations of our people and communities are met. The lands we gained with statehood, and the resources that come with them, were given to Alaska to build an economy. We must recommit ourselves to doing just that.

Walter J. Hickel twice served as governor of Alaska.

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MEMORANDUM

DATE: July 10, 1997

TO: Sheila Peterson Tim Benintendi Larry Labolle

FROM: Denny DeWitt, Legislative Assistant
Representative Mulder
Phone 465-2647 (Toll Free 888-465-2647)
Fax 465-3518
E-Mail: Dennis_DeWitt@legis.state.ak.us

RE: Legislative Research paper on Deferred Maintenance

Sorry, I just realized that my intention to distribute this was not accomplished. Basically, my mind went to mush on my way out of town.

Here is some research that is good reading. If you want the attachments give me a call. they are about 2 inches thick. I'll be more than happy to share.

Legislative Research Services

Alaska State Legislature
Legislative Affairs Agency
Division of Legal & Research Services



130 Seward Street, Suite 218
Juneau, Alaska 99801-2196
Phone: (907) 465-3991
Fax: (907) 463-3351

June 2, 1997

MEMORANDUM

TO: Representative Eldon Mulder

FROM: ^{PB} Paul Brandt and Paula d. Scavera
Legislative Analysts

RE: **Deferred Maintenance of Highways, Public Facilities, and Schools in Other States**
Research Request 97.096

You asked about deferred maintenance of highways, public facilities, and schools in other states. You wanted to know about the use of state fuel taxes for highway maintenance, and how other states identify and fund deferred maintenance of public facilities and schools. After a brief summary, this memorandum reviews the public facilities deferred maintenance programs in three states, examines the deferred school maintenance programs in two states, and reports on the nationwide use of dedicated state taxes to fund highway maintenance projects.

In order to obtain information on deferred maintenance programs in other states we contacted facility management specialists with the Council of State Governments (CSG), the National Association of Facilities Managers, the National Conference of State Legislators (NCSL), as well as numerous state officials. Individuals from every source we contacted agree that there is little published information on this general subject. Additionally, the professional staff of the aforementioned national organizations could not offer much guidance or advice on states with particularly successful approaches to deferred maintenance management. As a result, we relied heavily on information from lengthy discussions with facilities managers in California, Delaware, Idaho, Nebraska, and Tennessee.

We selected for review the public facilities deferred maintenance programs of Idaho, Nebraska, and Tennessee because they emphasize funding methods different from the traditional sale of bonds in order to finance capital maintenance projects. In addition, we selected for review the deferred school maintenance programs of California and Delaware because they operate so-called "matching" programs, requiring school districts to fund a portion of deferred maintenance costs in order to qualify for state funding.

SUMMARY

During our research, two facts became abundantly clear: 1) no matter how states organize or choose to fund their deferred maintenance projects a substantial amount of money is required; and 2) continually delaying maintenance ultimately results in increased projects costs. As one state official noted, you can pay for maintenance projects now or you can pay three times as much later. Most states sell bonds to pay for the deferred maintenance needs of public facilities. In contrast to this general rule, lawmakers in Idaho, Nebraska, and Tennessee established alternate funding methods. In Idaho, lawmakers established the Permanent Building Fund to make available resources for deferred maintenance projects. The fund receives revenues from several dedicated taxes including half the profits of the state-run lottery. In 1977, in an effort to study the problem of deferred maintenance, Nebraska lawmakers established the Task Force for Building Renewal which eventually became a permanent state agency. The Task Force receives funding from general fund appropriations and is unique in its use of preventive maintenance and education programs. In Tennessee, lawmakers instituted a rental system that requires state agencies to pay market rate rents which are used, in part, to pay for deferred maintenance. In recent years, Tennessee's rental system has failed to generate sufficient funds because of the legislature's reluctance to increase rents during periods of rising operational costs.

The U.S. General Accounting Office (GAO) recently estimated that the nation's schools require over \$112 billion in major repairs and renovations. Typically, local school districts receive state funds to pay for deferred maintenance in the form of grants and loans. A common method of administering grants is through state matching programs. These programs require school districts to supply a portion of the funds for deferred maintenance before becoming eligible for state dollars. In California, lawmakers established the State School Deferred Maintenance Fund as a source of revenue for its matching grant program. In order to qualify for funds, school districts prepare five-year deferred maintenance plans. By law, the state must match school districts dollar-for-dollar up to specified limits, but revenue shortfalls prevent the state from meeting this mandate. Delaware lawmakers provide an annual appropriation for the state's deferred school maintenance program. State school officials distribute the funds based on the number of students in each district. In order to qualify for matching funds, school districts must prepare a list of deferred maintenance projects and provide 40 percent of the project cost.

In 1995, 49 states dedicated all or a portion of their highway user fees--fuel taxes, vehicle registration fees, and vehicle licensing fees--to help pay for highway construction, maintenance, or other transportation-related programs.¹ At least 23 states authorize dedication of highway user fees through provisions in state constitutions. While the majority of these states apportion 100

¹ Arturo Perez and Ronald Snell, "Earmarking State Taxes," April 1995. While Alaska's highway user fees are not dedicated, they are kept in a separate account within the general fund. The authors of the study recognized this distinction, but considered the funds "essentially" dedicated and, for this reason, concluded that all 50 states earmark highway user fees. Attachment A is a copy of this report.

Representative Mulder

June 2, 1997

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percent of highway user fees to transportation programs, states authorizing dedication by statute may use these funds for purposes other than transportation. Many states place revenues generated from highway user fees into trust funds to ensure they are not spent for non-transportation purposes. Table 1 identifies those states with either transportation or highway trust funds and indicates which states devote highway user fees solely to highway or transportation purposes.

STATE PROGRAMS DESIGNED TO FUND DEFERRED MAINTENANCE OF PUBLIC FACILITIES

According to Charles Gault, Facilities Management Specialist with the Council of State Governments, most states use bonds to finance maintenance projects for public facilities, but even with this common system of financing, no standard facility management program exists among states. We identified three states that have well-established deferred maintenance programs and use methods other than bonding to finance public facilities maintenance projects.² The following is a review of the funding sources and deferred maintenance programs of **Idaho, Nebraska, and Tennessee.**

Idaho's Permanent Building Fund

The Idaho Division of Public Works oversees the planning and construction of all new office buildings and institutional facilities in the state. It also oversees capital maintenance projects greater than \$15,000 (less expensive projects are paid from agency operating funds). The division also oversees maintenance of prisons, special schools, mental hospitals, and other state-run institutions including Boise State College, Idaho State College, and Lewis and Clark College. The only exceptions are special-use buildings such as storage sheds, covered camping and picnic shelters, fish hatcheries and highway maintenance shops that are owned by the Departments of Parks and Recreation, Lands, Fish and Game, and Transportation.

Major maintenance and renewal projects undertaken by the division are financed through the Permanent Building Fund.³ Revenue from several sources feeds this dedicated fund. The largest stream of revenue to the fund is the dedication of half of the net earnings of the state-run lottery (the other half is distributed to schools districts for capital improvement projects). Other sources

²When speaking of deferred maintenance of public facilities we are generally speaking of state-owned office buildings and warehouses. In some states, such as Idaho and Nebraska, the division responsible for deferred maintenance also oversees prisons, state-owned hospitals, and other public institutions.

³Attachment B is a copy of Idaho's Statutes concerning the Permanent Building Fund (IC 57-1101 through 57-1113).

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include a special \$10 "head tax" assessed against every person who files a personal income tax return in the state and a portion of liquor sales tax and cigarette tax revenue. Currently, the fund has over \$18 million from dedicated sources. From time to time the legislature appropriates year-end money to the fund for special projects. Rent paid by tenants of state-owned buildings does not go into the dedicated Permanent Building Fund, but, instead, is used for operations and preventive maintenance.

The Permanent Building Fund Advisory Committee, a five-member body appointed by the governor, works with the Division of Public Works to assess the condition of state-owned buildings.⁴ The Advisory Committee recommends which capital projects should be financed through the Permanent Building fund and also selects architects and engineers for authorized projects.

Working with Public Works staff, the committee annually presents to the legislature a list of capital projects. The process begins in September, when the Public Works officials solicit needed capital maintenance projects from state agencies. Public Works staff investigate the proposals, usually with onsite inspections. After an initial screening, those state agencies with projects under consideration may make presentations to the Committee. On the basis of facility inspections and agency presentations, Public Works staff prioritize the projects for the committee. The committee reviews these suggestions and issues its own recommended list of projects to the legislature. The legislature must approve all appropriations of money from the Public Building Fund. In evaluating proposals, the Division of Public Works and the Committee use the following priorities to rank projects: 1) repairs that are necessary to save the structure; 2) repairs to protect the health and safety of occupants; 3) exterior renovation; and 4) interior renovation. According to officials in the division, the legislature usually defers to the committee and only occasionally deviates from the list of recommended projects.

Tennessee's Rental System

The deferred maintenance of public facilities in Tennessee is funded through the State Office Buildings and Support Facilities Revolving Fund.⁵ According to Eddie Nikazy, Facility Manager for the Tennessee Department of Administration, the fund receives revenues from rents paid by state agencies. Tennessee law allows the department to charge market rate rents and requires that these funds pay for: 1) operating expenses for office buildings and support facilities; 2) debt service payments on general obligation bonds authorized to build or acquire office buildings and

⁴By law, one member must be a banker, one a contractor, one a member of the general public, one a state senator, and one a state representative.

⁵Attachment C is a copy of the Tennessee Statutes concerning the fund (TCA 9-4-901 through 9-4-907).

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support facilities; 3) routine maintenance expenditures on office buildings and support facilities; 4) major maintenance and renovation projects for office buildings and support facilities as approved by the state building commission; 5) relocation expenses for state agencies; 6) obligations for leased space occupied by state agencies; and 7) building or acquiring buildings or support facilities as approved by the state building commission.

The Tennessee Building Commission selects which capital maintenance projects receive funding. State agencies submit requests for capital maintenance projects and the Commission determines highest priority projects based on evaluations completed by Department of Administration staff. The Commission consists of seven members: the governor, the secretary of state, the comptroller of the treasury, the state treasurer, the commissioner of finance and administration, and the speakers of the senate and the house of representatives.⁶

Mr. Nikazy reported that when lawmakers established the program in 1989, the department hired certified appraisers to determine appropriate market rate rents for urban, suburban, and rural areas.⁷ The rents were sufficient to meet the financial obligations listed above and to create a \$29 million surplus in the fund after only a few years. Lawmakers in Tennessee have not allowed the department to raise rental rates since establishing the program, however, and the fund's surplus is nearly exhausted. Mr. Nikazy indicated that without periodic rate adjustments, either in the form of cost of living allowances or new appraisals, the fund will not be able to meet its statutory obligations.

In addition to the fact that no mechanism exists to automatically adjust rents to reflect inflation, department officials must use the fund to pay for other services besides deferred maintenance. For example, state officials use monies from the fund to relocate state agencies including the costs of new furniture and wiring for telephones and computers. Because of competing claims on limited funds, department officials are not able to complete many deferred maintenance projects.

Nebraska's Task Force for Building Renewal

In 1977, lawmakers in Nebraska established the state's Task Force for Building Renewal following a legislative review of the condition of state buildings. According to Ralph Newell, Administrator

⁶Attachment D is a copy of the Tennessee Statutes concerning the State Building Commission (TCA 4-15-101 through 4-15-107).

⁷The market rate rents were established in 1989 at \$14 dollars per square foot (\$14/ft) in urban areas, \$13/ft in suburban areas, and \$9/ft in rural areas.

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of the Task Force, legislators were shocked at the deplorable condition of many state buildings during their statewide tour.⁸

The objective of the Task Force was to establish a central administration which would identify the state's deferred maintenance needs and develop policies and procedures for a new building maintenance program. As a result of the committee's work, the Task Force became a state agency in 1981.⁹

Oversight of the Task Force is conducted by members of a commission, appointed by the governor, consisting of retired construction specialists.¹⁰ This commission is also responsible for final project selection. Before the commission makes these selections, however, Task Force staff must conduct mandatory specification and contract reviews. These mandatory reviews create familiarity with the Nebraska construction costs and allow the Task Force to negotiate competitively.

The Task Force uses professionals with demonstrated expertise in architecture and construction to evaluate the maintenance needs of state buildings and to prioritize maintenance projects. These professionals are not state employees, instead, they function as self-employed consultants. The full-time staff of the Task Force consists of an administrator, a registered architect, an administrative assistant, and a staff assistant. In fiscal year 1995, the operations budget of the Task Force, including the cost of consultants, was less than 5 percent of the agency's appropriation.¹¹

According to Ralph Newell, the Task Force has funded \$67 million worth of projects over the last 19 years with an average yearly appropriation of \$3.5 million. In addition to funding projects, the

⁸Ralph Newell maintains a great deal of information on deferred maintenance programs in other states. Additionally, he takes a great interest in the subject of deferred maintenance and is willing to assist other states attempting to establish programs.

⁹The Task Force oversees the maintenance of most state-owned facilities including state office buildings, warehouses, prisons, state park buildings, and state owned hospitals. Plans are currently in place to expand the office's functions to include the oversight of school facility maintenance. Attachment E is a copy of Nebraska's Statutes concerning the Task Force for Building Renewal (RSN 71-6401 through 71-6407, 81-173 through 81-191.01, 81-1108.17 through 81-1108.23, and 81-1108.42 through 81-1108.43).

¹⁰The commission members also participate in onsite building reviews. Members are compensated on a per diem basis.

¹¹Attachment F is a copy of the policy and procedure manual of Nebraska's Task Force for Building Renewal.

Task Force operates several special programs focusing on education and preventive maintenance. Mr. Newell credits these programs with saving the state untold dollars and adding to the Task Force's success.

Unlike the deferred maintenance programs of Idaho and Tennessee, Nebraska's Task Force has responsibility for deferred maintenance projects only. Mr. Newell indicated that Nebraska's centralized building management program was purposely separated from the Task Force's deferred maintenance responsibilities. In addition to providing focus, the singular mandate simplifies oversight of the Task Force by both the executive and legislative branches of government. Mr. Newell believes that the Task Force receives strong support from both state agencies and the legislature because all parties are easily able to review Task Force actions.

DEFERRED MAINTENANCE OF SCHOOL FACILITIES

According to a 1995 report from the U.S. General Accounting Office (GAO), an estimated \$112 billion dollars is needed to complete repairs and renovations to the nation's schools in order to restore them to good condition. GAO officials concluded that the declining physical condition of these facilities is the result of school districts delaying maintenance and repairs, year after year, due to lack of adequate funds.¹²

A companion report, also prepared by GAO, examines the financial and technical support provided by states to school districts. GAO officials reported that most states provide funding for capital maintenance projects through grants or loans. GAO officials evaluated state school facility programs based on four criteria including funding to districts, number of state employees working on facility matters, current information on school conditions, and the level of technical assistance available to districts from the state. Using the criteria listed above, GAO officials found only 13 states with comprehensive school facility programs.¹³

While the report does not elaborate on specific state programs, it does mention that many states use matching programs to help school districts with the cost of major maintenance. Although there are undoubtedly others, we identified two states with deferred maintenance matching programs (**California and Delaware**).

¹²U.S. General Accounting Office, *School Facilities: Condition of America's Schools*, February 1995. A copy of this report is included as Attachment G.

¹³U.S. General Accounting Office, *School Facilities: States' Financial and Technical Support*, November 28, 1995. Alaska's school facility program was listed as one of the programs characterized as comprehensive. Attachment H is a copy of this report.

California's State School Deferred Maintenance Fund

To be eligible for state assistance for capital maintenance projects, school districts in California must prepare and file a five-year maintenance needs plan with the State of California Allocation Board. Once the plan is filed and approved, schools districts become eligible for state matching grants. By law, the state must match school districts dollar-for-dollar up to a limit of 1/2 of 1 percent of a district's total yearly budget.¹⁴

The money used to fund deferred maintenance matching grants in California may come from four sources: 1) general obligation bonds issued by the state; 2) fines paid by oil producers and shippers into the state's Petroleum Violation Escrow Account; 3) excess bond repayment funds; and 4) general fund appropriations. According to Eddie Hernandez, Manager of the State School Deferred Maintenance Fund, the primary source of revenue for the deferred maintenance program is from excess bond repayments because the legislature has been reluctant to issue general obligation bonds or to use monies in the petroleum escrow account. Mr. Hernandez also indicated that the program has received only four general fund appropriations over the last 16 years.

Money generated from excess bond repayments is not sufficient to match school districts at the dollar-for-dollar rate required by statute. In the early years of the program, school districts received approximately 80 percent of the required matching funds. As revenues to the fund decreased during the late 1980s and early 1990s, school districts received approximately 25 percent of the required funds. Currently, legislation is pending in the California Assembly which would place \$2 billion in the maintenance fund. The intent of the legislation is to provide adequate principle so that the yearly earnings are sufficient to achieve the dollar-for-dollar matching requirement.

Delaware's Deferred School Maintenance Program

Delaware's deferred school maintenance program is composed of two parts: the Minor Capital Improvement Program (projects under \$250,000) and the Major Capital Improvement Program (one or more projects with a total cost greater than \$250,000). The state matching monies come from a yearly general fund appropriation. In 1997, the appropriation was \$5.9 million.

School districts are eligible for a portion of the appropriation based on their enrollment in relation to the total student population of the state. For example, if a school district has 10 percent of the state's students, they receive 10 percent of the yearly appropriation.¹⁵ According to Ed

¹⁴ Attachment I is a copy of the California Education Code concerning the requirements of the deferred maintenance program (Education Code § 39618 through § 39619.55).

¹⁵ School districts supply 40 percent of the project costs and the state provides 60 percent in the form of matching funds.

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Shimamoto, Education Associate for School Planning and Maintenance within the Delaware Department of Public Institutions, department officials believe that school districts are more responsible for maintenance needs if a portion of the project costs comes from the school district's budget. Mr. Shimamoto also indicated that by apportioning the monies based on enrollment, the state does not have to prioritize projects. Project selection and prioritization are left to individual school districts; the districts submit yearly requests to the state as part of the funding process.

In 1996, the \$5.9 million appropriation paid for approximately 15 percent of the requests submitted by districts. Mr. Shimamoto indicated that the percentage is misleading because districts often include a "wish list" of projects rather than only those that are truly needed. The majority of the grants are given under the Minor Capital Improvement Program because districts must have voter approval for projects exceeding \$250,000. To avoid facing voter rejection, districts often break large projects into several smaller pieces, achieving individual project costs below \$250,000.¹⁶

HIGHWAY MAINTENANCE AND EARMARKING STATE TAXES

According to Arturo Perez, Fiscal Affairs specialist with NCSL, dedicating revenues for specific purposes, commonly known as earmarking, is a routine practice among states. In 1995, a report prepared by NCSL, *Earmarking State Taxes*, identified states with earmarked revenues and the programs these funds support. The report found that all 50 states earmark at least a portion of highway user fees--fuel taxes, driver license fees, and/or vehicle registration fees--for transportation purposes. The report includes Alaska because the state's motor fuel taxes are deposited in a special highway fuel tax account (Alaska Statute 43.40.010); NCSL officials, therefore, considered these funds "essentially" earmarked.¹⁷

While all states have some form of dedicated highway user fees, the laws authorizing the dedication may be either statutory or constitutional. At least 23 states dedicate revenues from highway user fees per provisions in their state constitutions. While the constitutional provisions differ, most of the 23 states apportion 100 percent of these revenues for transportation-related programs.

In states that dedicate highway user fees by statute, many also dedicate 100 percent of these revenues for transportation purposes; some, however, devote substantially less. For example, New

¹⁶Attachment J is a copy of Delaware's statutes concerning the deferred school maintenance matching program (DCA § 7503 through § 7529).

¹⁷New Jersey is similar to Alaska in that motor fuel tax receipts are placed in a special account within the general fund.

Representative Mulder
June 2, 1997
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York dedicates only 20 percent of highway user fee revenues for transportation purposes, and lawmakers in Arizona and California allow officials in their states to use a portion of highway user fees revenues for education.

The use of dedicated highway user fees for transportation purposes varies among states. According to Frank Moretti of the Road Information Program based in Washington, D.C., 28 states dedicate highway user fees strictly for road and bridge improvement and another 11 states require their use for only transportation-related purposes. Mr. Moretti also indicated that several states place dedicated highway user fees in trust funds to prevent spending on programs unrelated to highways. Table 1 identifies those states with either transportation or highway trust funds and indicates which states dedicate highway user fees solely for highway or transportation purposes.¹⁸

I hope this information is useful for your purposes. Please do not hesitate to call if you have additional questions.

Attachments

¹⁸Federal Highway Administration, *Highway Taxes and Fees: How they are collected and Distributed*, 1993. In 1993, the U.S. Department of Transportation's Federal Highway Administration prepared a study that details how states spend their highway taxes and fees. We have included a copy of this report as Attachment K.

TABLE 1
STATE DEDICATED HIGHWAY AND TRANSPORTATION FUNDS

State	Transportation Trust Fund Dedicated Solely to Transportation	Highway Trust Fund Dedicated Solely to Highways	Highway User Fees Dedicated Solely to Transportation	Highway User Fees Dedicated Solely to Highways
Alabama		X		X
Alaska				
Arizona		X	X	X
Arkansas		X	X	X
California	X			
Colorado		X	X	X
Connecticut	X		X	
Delaware	X		X	
D.C.		X		
Florida	X			
Georgia		X	X	X
Hawaii		X	X	X
Idaho	X	X	X	X
Illinois				X
Indiana	X	X	X	X
Iowa		X	X	X
Kansas		X	X	X
Kentucky		X		X
Louisiana	X			
Maine		X	X	X
Maryland	X		X	
Massachusetts	X		X	
Michigan	X		X	
Minnesota		X		X
Mississippi	X		X	
Missouri	X	X	X	X
Montana	X			
Nebraska		X		X
Nevada		X	X	X
New Hampshire		X	X	
New Jersey	X			
New Mexico		X		X
New York	X	X	X	
North Carolina		X	X	X
North Dakota		X		X
Ohio		X	X	
Oklahoma				
Oregon		X	X	X
Pennsylvania		X	X	X
Rhode Island	X	X	X	
South Carolina				
South Dakota		X	X	X
Tennessee		X		X
Texas	X			
Utah	X		X	
Vermont				
Virginia	X	X	X	X
Washington	X	X	X	X
West Virginia		X	X	X
Wisconsin	X			
Wyoming		X	X	X
TOTALS	21	32	31	28

Source: The Road Information Program, 1996 State Highway Funding Methods, Washington, D.C.

ALASKA STATE LEGISLATURE

Rep. Eldon Mulder, Co-Chair
Rep. Kim Elton
Rep. Richard Foster
Rep. Jeannette James
Rep. Beverly Masek
Rep. Gail Phillips



Sen. Tim Kelly, Co-Chair
Sen. Loren Leman
Sen. Georgianna Lincoln
Sen. Robin Taylor
Sen. Gary Wilken
Sen. Mike Miller

DEFERRED MAINTENANCE TASK FORCE

MEMORANDUM

DATE: May 20, 1997
TO: Legislative Research
FROM: Representative Mulder *Eldon*
RE: Research for Deferred Maintenance Task Force

I would like to know what other states and counties are doing in the area of identifying and funding deferred maintenance.

I know many states dedicate the gasoline tax to road construction and maintenance and marine fuel taxes to docks and harbors. I would like to know how many do and which ones they are.

Beyond that information, I would like to know if any other states have addressed this issue and if they have identified:

- any processes for identifying their deferred maintenance needs
- methods for prioritization
- approaches to funding the identified needs

We will need this information for the work of the Deferred Maintenance Task Force during the interim.

If you have any questions or need any further clarification, please contact Denny DeWitt in my Juneau office. His phone number is 465-2647.

*Fax 3351
HARD copy will
follow*

Legislative Research Services

Alaska State Legislature
Legislative Affairs Agency
Division of Legal & Research Services



130 Seward Street, Suite 218
Juneau, Alaska 99801 2196
Phone: (907) 463 3991
Fax: (907) 463-3351

June 2, 1997

TO: Representative Eldon Mulder

FROM: Paul Brandt and Paula d. Scavera
Legislative Analysts

RE: **Deferred Maintenance of Highways, Public Facilities, and Schools in Other States**
Research Request 97.096

Please check the appropriate box and return to **Mail Stop 3101** or the above mailing address.

- ☐ I approve the release of this information.
- ☐ I approve the release of this information, but remove my name.
- ☐ Keep confidential.

Date

Signature

To assist us in improving the quality of our research services, we would appreciate your response to the following questions. Please be assured that we will take your comments seriously in performing future research for you.

Was the information objective?

Was it clearly written?

Did it provide answers to (or, at least, useful information on) all the questions you posed?

Was the research completed and delivered to you in a timely manner?

Legislative Research Services

Phone: 465-3991

Fax: 463-3351

No: 97.096

Short Title: Deferred Maintenance Funding in Other States

Legislator: Representative Eldon Mulder

Phone: 465-2647

**Legislative Staff
Contact:** Dennis DeWitt

☐ Phone

☒ Memo

Date Requested: May 20, 1997

Staff Assignment: Paula Scavera and Paul Brandt

Date Assigned: May 21, 1997

Questions Asked/Information Sought

See attached memorandum.

Expected Completion Date: May 30, 1997

Priority Status:

Due to a reduction in staff, Legislative Research Services has been directed by Legislative Council to prioritize work assignments according to the attached policy. Research staff will try to complete this request by the expected completion date listed above. If another request is assigned with a higher priority, however, your research may be delayed.

ALASKA STATE LEGISLATURE

97.096

Rep. Eldon Mulder, Co-Chair
Rep. Kim Elton
Rep. Richard Foster
Rep. Jeannette James
Rep. Beverly Masek
Rep. Gail Phillips



Sen. Tim Kelly, Co-Chair
Sen. Loren Leman
Sen. Georgianna Lincoln
Sen. Robin Taylor
Sen. Gary Wilken
Sen. Mike Miller

DEFERRED MAINTENANCE TASK FORCE

MEMORANDUM

DATE: May 20, 1997
TO: Legislative Research
FROM: Representative Mulder *Eldon*
RE: Research for Deferred Maintenance Task Force

RECEIVED BY
MAY 20 1997
Legislative Research Services

I would like to know what other states and counties are doing in the area of identifying and funding deferred maintenance.

I know many states dedicate the gasoline tax to road construction and maintenance and marine fuel taxes to docks and harbors. I would like to know how many do and which ones they are.

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If you have any questions or need any further clarification, please contact Denny DeWitt in my Juneau office. His phone number is 465-2647.

LEGAL AND RESEARCH SERVICES

Legislative Council Research Priority Policy

The Legislative Council recognizes that staffing reductions have made it impossible to provide the level of research services that have been provided in the past. With enhanced technological support like Internet now available, the Council expects committee aides and staff of individual Legislators to perform routine research. Therefore, the Council directs the Legislative Research Section of the Division of Legal and Research Services to concentrate on providing assistance to legislative staff in finding materials and conduct their own research. Furthermore, as to research conducted by the Legislative Research Section itself, under the authority of AS 24.20.100, the Council directs the section to give priority in the following order to research requests:

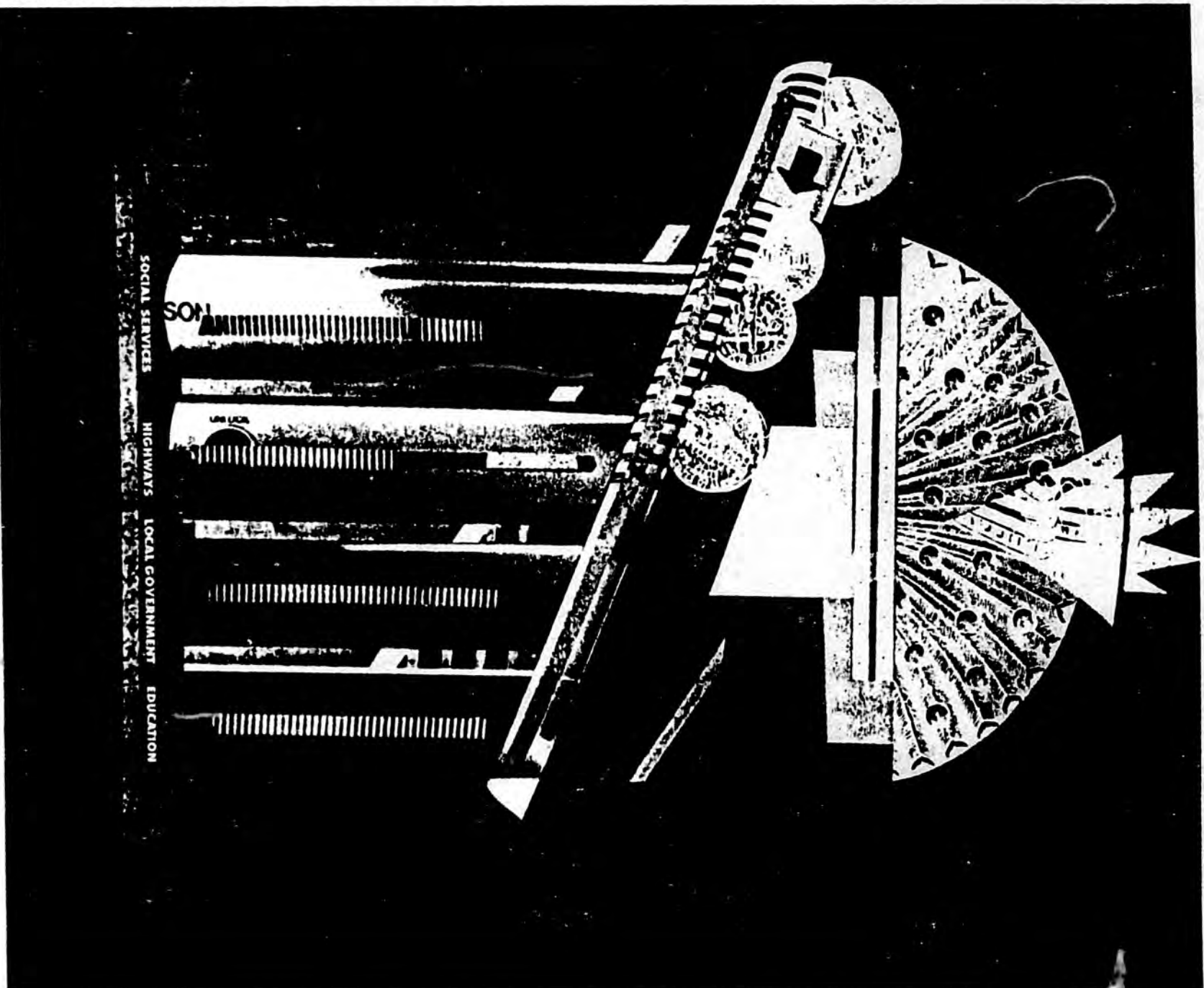
1. Research for the presiding officer, majority and minority leaders of each house requested in writing and signed by the officer.
2. Research for standing, joint, special, permanent interim, and other committees of the Legislature requested in writing and signed by the committee chair.
3. Research for an individual Legislator requested in writing and signed by the Legislator.
4. Oral or other requests received from Legislators and legislative staff.

ATTACHMENT A

Earmarking State Taxes
(National Conference of State Legislatures, 1995)

E A N N A L

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EARMARKING STATE TAXES

THIRD EDITION

by
Arturo Pérez and Ronald Snell
Fiscal Affairs Program

National Conference of State Legislatures
William T. Pound, Executive Director

1560 Broadway, Suite 700
Denver, Colorado 80202

444 North Capitol Street, N.W., Suite 515
Washington, D.C. 20001

April 1995



The National Conference of State Legislatures serves the legislators and staffs of the nation's 50 states, its commonwealths, and territories. NCSL was created in January 1975 from the merger of three organizations that served or represented state legislatures. NCSL is a bipartisan organization with three objectives:

- To improve the quality and effectiveness of state legislatures,
- To foster interstate communication and cooperation,
- To ensure states a strong, cohesive voice in the federal system.

The Conference has offices in Denver, Colorado, and Washington, D.C.



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ACKNOWLEDGMENTS

This third edition of NCSL's *Earmarking State Taxes* is the work of many people. Arturo Pérez of the NCSL fiscal staff coordinated the 50-state survey on which the report is based and compiled and edited the tables. Ronald Snell rewrote the text on the basis of the text in the 1987 document, itself redrafted from text Steven D. Gold wrote in the 1987 edition. Michelle Pavlock prepared this book for publication.

NCSL gratefully acknowledges the support provided by Philip Morris USA for research and publication of this book.

EXECUTIVE SUMMARY

Dedicating revenues for specific purposes continues to be a common practice among the states. The common term used to describe the practice of designating certain revenue for specific purposes on a continuing basis is *earmarking*. This report describes the extent of earmarking state taxes in fiscal year (FY) 1993 and discusses its impact on the state budgeting process.

The proportion of state taxes to be earmarked grew slightly between FY 1988 and FY 1993. The proportion was 24.4 percent in FY 1993 compared to 23 percent in FY 1988.

The level of earmarking in the states continues to vary considerably. Alabama retains its lead over all states with 87 percent of its taxes earmarked for specific purposes and Kentucky is at the low end with only 4 percent of its taxes earmarked.

Motor fuel taxes are the most widely earmarked of state taxes with 50 states earmarking them, followed by general sales, motor vehicle registration, tobacco, alcoholic beverage, insurance and severance. The report shows that all taxes are earmarked to some extent. Among the least earmarked taxes are public utilities, pari-mutuel, and gaming. But even those taxes are dedicated for various programs from debt service to health and welfare programs.

As a general rule, earmarking constitutes a constraint on budgeting, with few if any advantages for state revenue and budgetary management. Earmarking may provide a reliable source of income for a program but not necessarily equal to the demand for services. Earmarking is more likely to hamper than assist state budgetary design and management. Earmarking diminishes legislators' and governors' budgetary control by making comprehensive budgeting more difficult.

INTRODUCTION

This report continues a series of reports from the National Conference of State Legislatures that summarize and discuss the practice of earmarking state taxes. Earmarking means designating some or all of the collections from a specific tax for a specific expenditure, with the intention that the designation will continue into the future. Earmarking is an important and controversial element in state finance. Its importance springs from the amount of tax revenue that is earmarked—almost one-quarter of state tax collections in Fiscal Year 1993—and the way the earmarked revenue is designated for use. This book provides state-by-state detail on both the amount of earmarking and its uses.¹

This book also explores the controversial issue whether earmarking taxes is sound state policy. This question does not concern *tax* policy so much as it concerns *budget* policy. Whether to earmark a tax is a budget issue for two reasons. Earmarking can help to determine the level of spending for a program, and it thereafter removes some amount of regular budgetary decision making from the governor and legislature. The heart of the state budget process consists of weighing priorities against one another. When programs benefit from earmarked revenues, the scales have been loaded in their favor (or, paradoxically, sometimes against them, as this report will show). Whether or not a specific program actually benefits from earmarked taxes, the budget process is more limited than it otherwise would be. This study weighs the cost of that limitation against the arguments in favor of earmarking.

Definitions and Methodology

This study was organized to make comparisons with its predecessors in 1990 and 1987 as easy as possible. The summary tables and the individual state tables follow the formats of those two studies. This study also follows the definitions and methodology of the previous studies as closely as was practical.

Earmarking means designating some or all of the collections from a specific tax for a specific expenditure, with the intention that the designation will continue into the future.

A *tax* is "a compulsory payment of a percentage of income, property value, sales price, etc., for the support of a government" and is to be distinguished from a *fee*, which is "a payment asked or given for professional services, admissions, licenses, tuition, etc." This

study is concerned with taxes and generally follows the Census Bureau definitions of *tax* and *fee* just quoted.

Most of the decisions in this study about what exactions to count as taxes will seem logical enough to readers. Some may not.

- Previous versions of this study included vehicle operator's licensing fees and some other fees—especially for hunting and fishing licenses—as taxes. That was consistent with the practice of the Census Bureau in its reports on state finance and was necessary because the previous versions of the report used Census Bureau figures for total state tax collections. This report has dropped all licensing fees from the category of taxes because they are *not* taxes and because it was not clear that survey respondents in the past had reported them consistently.
- Like its predecessors, this study counts motor vehicle registration collections and exactions with names like "highway privilege fee" as taxes, however, since in general these can be said to be in lieu of property taxes, if they are not specifically property taxes.
- Previous versions of this study used Census Bureau figures for total state tax collections. Because comparable figures are not yet available from the Census Bureau for FY 1993, this report uses state figures for total tax collections.
- Like its predecessors, this study excludes unemployment compensation taxes. Because it is a federally mandated tax, it is not subject to the state policy making process that is the focus of this report. Including it would distort overall state tax collection figures and serve no useful purpose. This exclusion follows the general policy of excluding unemployment compensation taxes from discussions and comparisons of state taxes. This is consistent with Census Bureau policy in its measurement of what it considers to be state general revenue, that is, multipurpose revenues.
- This report includes the proceeds of state-owned liquor stores as taxes on the grounds that such proceeds tend to be a substitute for taxation in states where there is no public monopoly of liquor sales.

Finally, this report is concerned with the earmarking of *state* taxes to the exclusion of local and federal taxes. Sometimes some or all of the proceeds of a state tax are paid to local governments. In this study, a tax is considered to be a state tax if it is levied by state government, regardless of who spends the revenue. Taxes enacted by or levied by local governments are excluded from this study even when the state government collects the revenue to remit to local governments (as is the case with local sales taxes in some states).

EARMARKING STATE TAXES

The Extent of Earmarking

Every state earmarks taxes to some extent, and a few earmark more than 50 percent of their tax collections. The average amount is less than 25 percent and varies greatly from state to state—from about 4 percent in Kentucky to 87 percent in Alabama (table 1).

Earmarked taxes fell as a proportion of total state tax collections from the time that data on the point were first collected in the 1930s until the 1970s. In 1954, 51.3 percent of state tax collections were earmarked. The proportion fell to 41.1 percent in 1963 and to 23 percent in 1979. Much of that change is explained by the increased state reliance on sales and income taxes in the 1950s and 1960s. Those taxes were powerful generators of revenue and tended not to be earmarked. The revenues they produced overshadowed the amount produced by the taxes that traditionally were earmarked—motor fuel and other excise taxes.

Since 1979, the earmarked share of state tax collections has remained near 23 percent. As table 1 reports on the basis of earlier NCSL reports, the proportion fell to 21 percent in 1984 and returned to 23 percent in FY 1988. As this report demonstrates, by FY 1993 the proportion was 24.4 percent. The increase in earmarking should not be overstated. Because these studies' definitions of taxes have varied slightly over time and because some states did not report information for FY 1988, the variations in these percentages are partly due to reporting error. However, it is clear that legislators now turn somewhat more readily to earmarking taxes than they did in the recent past.

The specific nature of the changes in states where earmarking increased or decreased by 5 percent or more of state tax collections between FY 1988 and FY 1993 reinforces the point. In most cases where earmarking decreased by that amount, there was no policy decision. The decrease resulted from changed patterns of tax collections. But in the states where earmarking grew by 5 or more percent of collections, the growth was the result of a specific policy decision. The major changes in earmarking that legislators approved between FY 1988 and FY 1993 increased earmarking.

These are the major changes in the earmarking of state taxes since FY 1988. Major change here means that a state either increased or decreased its amount of earmarking by at least 5 percent of its total tax collections between FY 1988 and FY 1993.