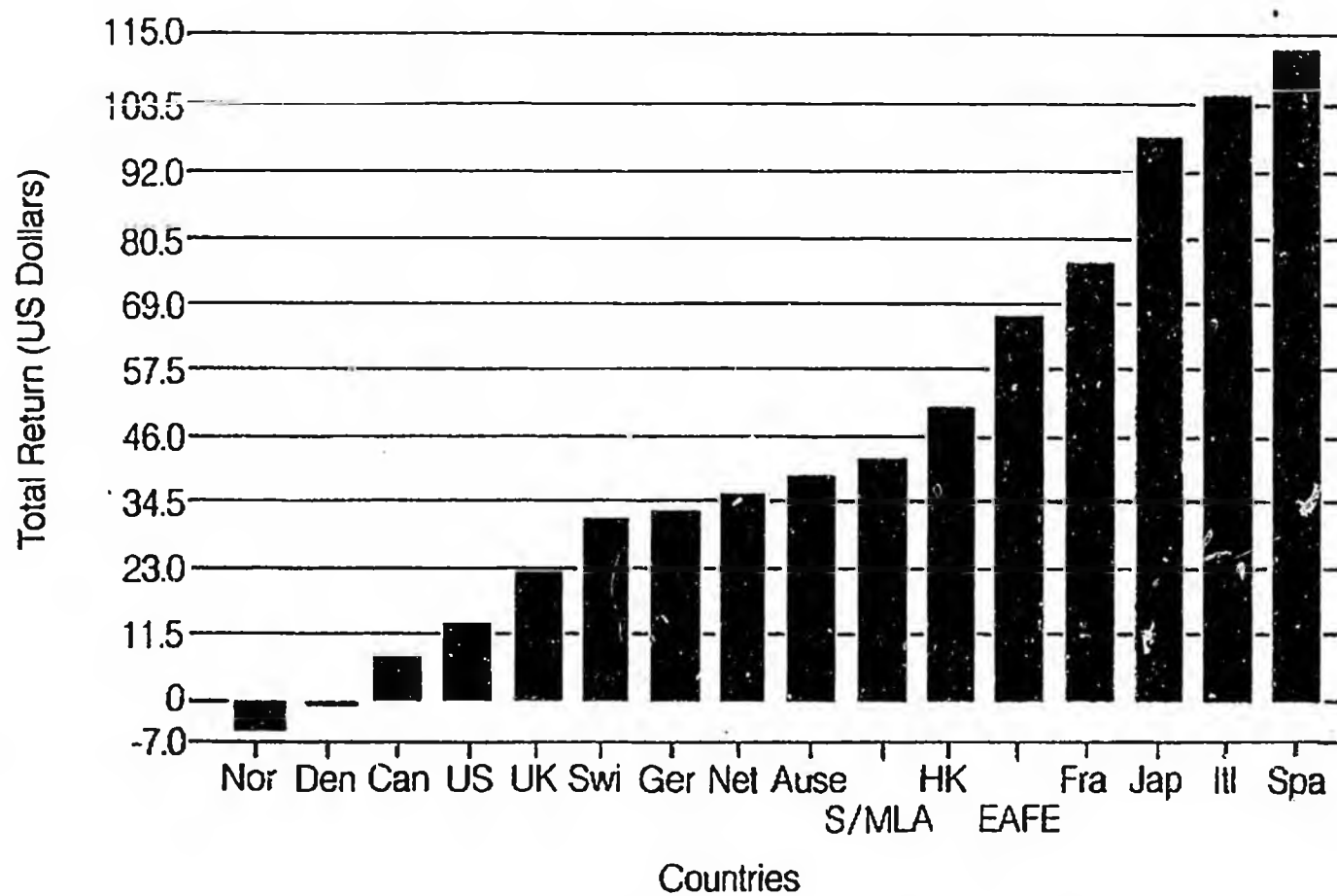


ALASKA LEGISLATURE COMMITTEE FILES, 1989-1990 8672

6097 HOUSE STATE AFFAIRS

501

## 1986 World Equity Market Performance

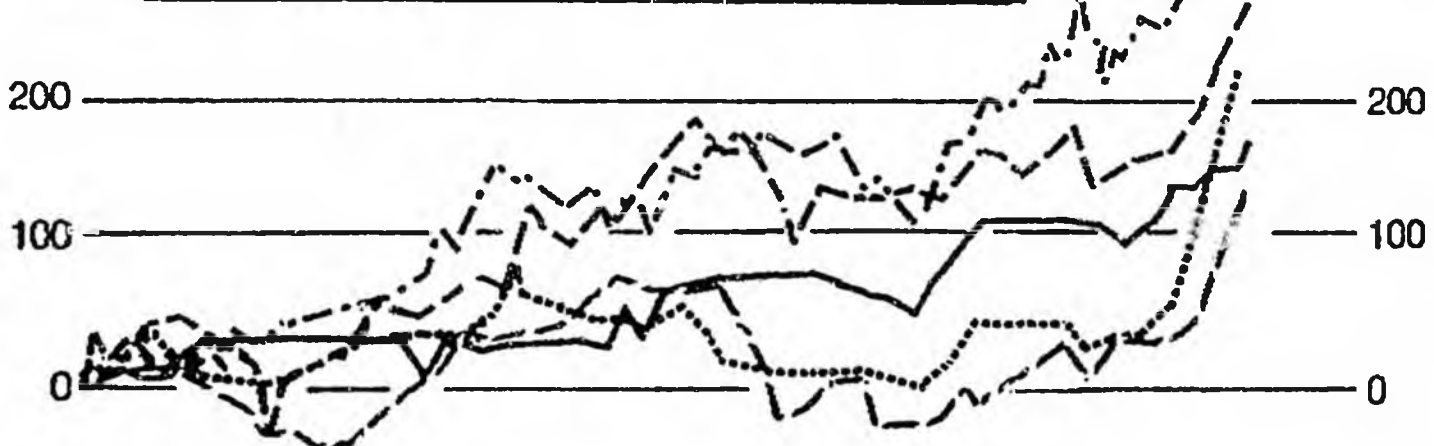
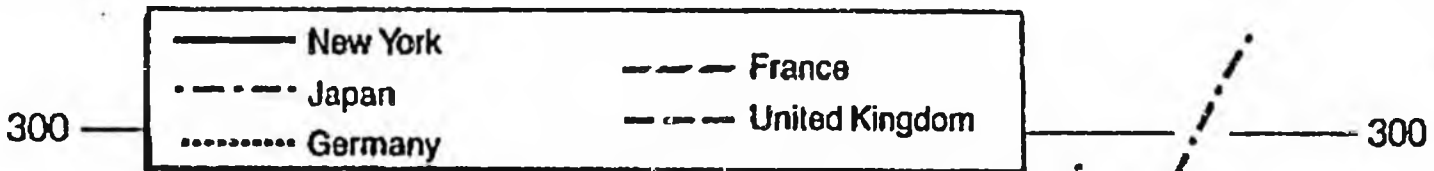


# World Stock Markets

January 1975–January 1986

Zerobased  
Price

400% ————— 400%



1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986

Morgan Stanley Capital International Country Indices

Historical Total Returns of Government Bonds in U.S. Dollars  
(in percent)

Country	1978***	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1978- 1988**	Annualized 1978- 1988**	Standard Deviation of Annual Returns
Australia*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-12.36	17.61	28.69	30.36	72.90	14.67	17.13
Canada	-2.38	-0.63	1.70	-2.41	35.73	9.57	8.80	17.51	17.16	8.57	20.01	179.45	10.92	11.13
France	31.90	0.15	-8.07	-16.07	1.88	-2.81	1.60	52.70	33.93	25.43	3.75	172.84	10.65	20.31
Germany	15.51	7.40	-10.58	-8.42	14.09	-8.06	-1.03	43.36	38.72	28.67	-6.30	152.89	9.81	18.62
Netherlands	7.69	16.24	-5.76	-8.55	15.85	-8.61	-2.61	42.66	36.14	32.01	-6.10	167.82	10.44	18.25
Switzerland	32.19	-0.59	-9.63	-1.65	1.18	-4.82	-14.66	34.36	35.16	32.60	-12.49	102.26	7.36	19.64
United Kingdom	3.83	12.40	28.88	-19.00	26.51	1.04	-13.11	40.59	15.28	47.52	2.96	233.10	12.90	20.06
United States	0.51	1.90	-0.79	3.86	31.33	4.06	14.29	28.48	21.03	-1.37	8.16	173.37	10.67	11.34
Japan	32.70	-21.46	22.88	5.50	3.28	12.55	2.69	37.31	43.57	39.87	4.24	363.49	16.72	19.33
Non-U.S.*	18.74	-4.98	13.68	-4.61	11.88	4.32	-1.96	37.15	33.92	36.17	2.95	260.43	13.80	15.45
World*	9.74	-1.74	7.82	-1.04	20.24	5.73	5.70	32.21	26.47	15.53	5.88	216.27	12.31	10.42

Source: Datastream

\* Australian cumulative returns are for 1984 - 1988. World and Non-U.S. returns are weighted by market capitalizations.

\*\* Numbers are calculated from January 1978 - December 1988.

\*\*\* 1978 total returns are calculated from January - December 1978, i.e., 11 months. The reported number is not annualized.

HB 69

NOTES

\* DIVERSIFY HOLDINGS IN INTERNAL ARENA \*

PTS

- 1) CAUTIOUS APPROACH
- 2) DIVERSIFICATION  
WIDER DIVERSE - SPECIFIC PROTECTION
- 3) FOREIGN MARKETS, PROFIT > RETURNS  
HOWEVER, LOOKING FOR DIVERSIFICATION
- 4) ENTRY OF PF INTO "F" MARKETS  
BUSINESS CONTACTS / FINANCIAL LEADERS  
PACIFIC RIM -

INSERTION OF IMMEDIATE ASSOCIATIVE DATA

HAULEY

COMPETITION? DIVERSIFICATION PROTECTS PRINCIPAL  
WHICH FILLS THEIR GOALS -

SPOLSKO

PRUDENT MAN RULE - INVESTMENTS NOT  
MADE IN COUNTRIES WHERE FUNDS WERE FOUNDED -  
S.A. C.G.

MACLEAN

20 ↓ 2-3-4 ?

NOT TIME TO ENTER BECAUSE  $\downarrow$  WORLD  
MARKETS

-> MANAGEMENT FEES

TRS + PERS INVEST > FEES

-> SAFEST PERFORMANCE > SPECTRUM OF RISK

L>

MACLEAN

CEILING LIMIT ON INVESTMENTS = TOTAL INVESTMENT

DUCKAGE IS 50% STOCK - 1.0% WITHIN

50% RULE ->

**HB**

**73**

**HOUSE COMMITTEE ON STATE AFFAIRS**

**RECAP OF  
HB 73**

*Tech. Amendments : Public Employee Benefits*

Received January 9, 1989  
by the Rules Committee  
by Request of the Governor

Heard January 26, 1989

Passed Out of Committee January 26, 1989  
6 Do Pass

## TABLE OF CONTENTS

### **HB 73: Tech. Amendments - Public Employee Benefits**

- Item 1:** HB 73 by Rules Committee  
by Request of the Governor
- Item 2:** Governor's Transmittal Letter
- Item 3:** Fiscal Note

# HOUSE COMMITTEE REPORT

(5)

Date Referred: January 9, 1989

FURTHER REFERRALS: JUDICIARY  
FINANCE

Date of Committee Action: \_\_\_\_\_

The STATE AFFAIRS Committee recommends that:

HOUSE BILL NO. 73 [TECH. AMENDT'S - PUB. EMP. BENEFITS]  
"An Act making technical amendments to public employee benefits statutes;  
and providing for an effective date."

[ ] be replaced with \_\_\_\_\_ [ ] the same title  
[ ] a new title

[ ] have attached amendment(s)

- do pass
- [ ] do not pass
- [ ] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- [ ] fiscal impact
- [ ] zero fiscal note
- [ ] zero with analysis

APPROVES PREVIOUS:

- [ ] fiscal note(s) published:
- zero fiscal notes(s) published:  
1/9/89 Dept of Admin

SIGNING DO PASS:

Eileen P. McKeon  
Carl [unclear]  
Scott [unclear]  
Alice [unclear]  
Joseph [unclear]  
D.C. [unclear]

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

\_\_\_\_\_  
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 \_\_\_\_\_

[Signature]  
 Chairman's signature

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

1 IN THE HOUSE

2 HOUSE BILL NO. 73

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making technical amendments to public employ-  
7 ee benefits statutes; and providing for an effective  
8 date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. AS 14.25.220(35) is amended to read:

spend it on  
anything - don't  
do that

11 (35) "retirement fund" or "fund" means the fund in which the  
12 assets of the system, including income and interest derived from the  
13 investment of money, are deposited and held;

14 \* Sec. 2. AS 22.25.041(b) is amended to read:

15 (b) A justice or judge whose contributions have been involuntar-  
16 ily refunded because of a levy may repay the amount levied together  
17 with accrued interest whether or not the justice or judge is on active  
18 service. Repayments shall be made under (a) of this section, except  
19 that a judge or justice who does not return to active service may  
20 repay the contributions at any time before appointment to retirement. ✓

21 \* Sec. 3. AS 39.30.150(a) is amended to read:

22 (a) In place of contributions to the federal social security  
23 system that would have been required on behalf of an employee had the  
24 participating employer belonged to the social security system, the  
25 participating employer shall contribute an amount equal to 6.13 per-  
26 cent of the wages of the employee up to the taxable wage base then in  
27 effect in the social security system. This contribution must be paid  
28 into an individual employee annuity account in the Department of  
29 Administration under the terms of the State of Alaska Supplemental

1 Annuity Plan. The employer [DEPARTMENT] shall pay 6.13 percent of the  
2 wages of the employee up to the taxable wage base then in effect in  
3 the social security system into the individual employee annuity ac-  
4 count established under this subsection. This wage reduction must be  
5 treated as an employer contribution under 26 U.S.C. 414(a)(2). All  
6 costs of establishing and administering the programs established under  
7 AS 39.30.150 -- 39.30.180 must be paid from the contributions made to  
8 the individual employee annuity accounts under this section.

9 \* Sec. 4. Section 1 of this Act is retroactive to June 5, 1988.

10 \* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 9, 1989

The Honorable Sam Cotten  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Cotten:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to public employee benefits. The bill amends provisions of the teachers' retirement, judicial retirement, and supplemental benefits systems.

Section 1 of the bill amends the definition of "retirement fund" in the teachers' retirement system statutes to correct the inadvertent deletion last session of two provisions that provided specific statutory authority for dedication, to the fund, of income and interest earned on assets of the fund. Section 4, ch. 141, SLA 1988 deleted a provision allowing the commissioner of revenue to collect the interest and deposit it in the fund. Section 19, ch. 106, SLA 1988 deleted from the definition of "retirement fund" a pre-statehood provision that the fund includes "income and interest derived from the investment" of money. The bill's amendment reinstating that language is retroactive to June 5, 1988, the effective date of ch. 106, SLA 1988. Section 4 of the bill.

Section 2 of the bill amends a provision enacted last session by sec. 3, ch. 89, SLA 1988, which allows a former judge or justice whose judicial retirement system contribution account has been involuntarily refunded due to a levy, to repay his or her contribution account, whether or not the judge or justice returns to active service. Under AS 22.25.041(b), a former judge or justice may repay an involuntarily refunded contribution account under AS 22.25.041(a), which requires repayment to be made within one year after return to active service. The amendment made by sec. 2 of the bill clarifies that judges and justices who do not return to active service are not subject to the requirement that repayment of an involuntarily withdrawn contribution account be made within one year.

Item 2

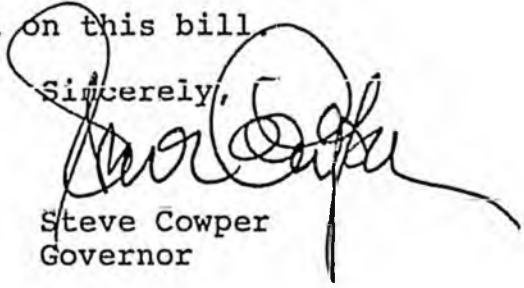
12  
74573

Section 3 of the bill amends AS 39.30.150(a) to clarify that, because municipal as well as state employees can be members of the system, the employer of a supplemental benefits system member, not the Department of Administration, is required to make payments to the member's individual annuity account.

Section 5 provides for an immediate effective date.

I urge your favorable action on this bill.

Sincerely,



Steve Cowper  
Governor

27

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

Bill Version: HB 73  
Publish Date: HOUSE 1/9/89

Item 3 No. 1

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: An Act Relating To  
Public Employee Benefits . . .  
Sponsor: Rules  
Requestor: Governor Comper

Agency Affected: Administration  
BRU: Retirement and Benefits  
Components: Retirement and Benefits

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

This bill provides for technical corrections to the Teachers' Retirement System, Judicial Retirement System and the Supplemental Benefits System. There is no fiscal impact anticipated resulting from these changes.

Prepared By: Sally Smith *Sally Smith* Phone: 465-4470  
Division: Retirement and Benefits Date: \_\_\_\_\_

Approved by Commissioner: John M. Andrews *J.M.A.* Date: 12/21/88  
Agency: Department of Administration

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

Bill Version: HB 73  
Publish Date: HOUSE 1/9/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Relating to Public Employee  
Benefits \_\_\_\_\_  
Sponsor: Rules  
Requestor: Governor

Agency Affected: Department of Revenue  
BRU: Treasury Division  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
<b>OPERATING</b>						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

POSITIONS:

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

ANALYSIS:

Prepared By: Milt Barker MB  
Division: Treasury

Phone: 465-2350  
Date: 12-19-88

Approved by Commissioner: [Signature]  
Agency: Department of Revenue

Date: 12/19/88

Distribution (by preparer):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)

**HB**

**74**

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### HB 74: Seward Student Service Center

- Item 1: HB 74 by the Rules Committee by Request of the Governor/CSHB 74 by the Health, Education and Social Services Committee
- Item 2: HESS Bill Packet
- Item 3: Memorandum re: Separation of Powers Doctrine and HB 74  
February 21, 1989

HOUSE COMMITTEE ON STATE AFFAIRS

RECAP OF  
HB 74

Seward Student Service Center

Received February 6, 1989  
by the Rules Committee by  
Request of the Governor/CSHB 74 (HESS)

Heard February 23, 1989

Passed Out of Committee February 23, 1989  
5 No Recommendation

# HOUSE COMMITTEE REPORT

(7)

Date Referred: February 6, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: \_\_\_\_\_

The STATE AFFAIRS Committee recommends that:

HOUSE BILL NO. 74

"An Act approving acquisition and refinancing of the Seward Student Service Center by the Alaska State Building Authority, and approving a lease-financing agreement for the project; and providing for an effective date."

[ ] be replaced with \_\_\_\_\_ [ ] the same title  
[ ] a new title

[ ] have attached amendment(s)

- [ ] do pass
- [ ] do not pass
- [X] no recommendation
- [ ] individual recommendations
- [ ] additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- [ ] fiscal impact
- [ ] zero fiscal note
- [ ] zero with analysis

APPROVES PREVIOUS:

- [X] fiscal note(s) published:  
1/9/89 Revenue
- [X] zero fiscal notes(s) published:  
1/9/89 ASBA and education

SIGNING DO PASS:

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

\_\_\_\_\_ (no-rec)  
 \_\_\_\_\_ (no-rec)  
 \_\_\_\_\_ (no-rec)  
 \_\_\_\_\_ (no-rec)  
 \_\_\_\_\_ WRS

\_\_\_\_\_

\_\_\_\_\_

Chairman's signature

Item 2



Alaska State Legislature  
House of Representatives  
COMMITTEE ON HEALTH, EDUCATION  
AND SOCIAL SERVICES

OFFICIAL BUSINESS

POUCH V  
JUNEAU, AK 99811  
465-3759

February 3, 1989

\*\*\*\*\*

COMMITTEE CALENDAR:

HB 74: Seward Student Service Center

FOR THIS MEETING, YOU HAVE BEEN GIVEN:

- item #1: letter to State Affairs from HESS
- #2: CS HB 74 & HB 74
- #3: letter from the Governor
- #4: fiscal notes - Dept. of Revenue
  - Alaska State Building Authority
  - Dept. of Education
- #5: Memo from DOR to Budget Review, 9/23/88
- #6: letter to DOR from Standard & Poor's
- #7: letter of support - Alaska State Building Authority
- #8: letter to Speaker Cotton from DOA
- #9: HESS Committee Report Form
- #10: *witness register*

# HEALTH, EDUCATION AND SOCIAL SERVICES COMMITTEE

ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES



P.O. BOX V, JUNEAU 99811  
(907) 465-3759

## LETTER TO ACCOMPANY HB 74

The HESS Committee respectfully requests that the State Affairs Committee review the constitutional issue discussed in the Governor's transmittal letter and the wisdom of lease financing agreements as a method of financing.

go0479hE  
Bannister  
2/2/89

Original sponsor: Rules/Governor

1 IN THE HOUSE

BY THE HEALTH, EDUCATION AND  
SOCIAL SERVICES COMMITTEE

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CS FOR HOUSE BILL NO. 74 (HESS)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
SIXTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act approving acquisition and financing of the Seward Student Service Center by the Alaska State Building Authority, and approving the use of a lease-financing agreement for the project; and providing for an effective date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

\* Section 1. The Alaska State Building Authority may acquire the Seward Student Service Center in Seward and provide financing for the acquisition.

\* Sec. 2. Section 1 of this Act gives the approval referred to in AS 18.55.100(d).

\* Sec. 3. The Department of Administration may enter into a lease-financing agreement with the Alaska State Building Authority for the Seward Student Service Center in Seward.

\* Sec. 4. Section 3 of this Act gives the approval referred to in AS 36.30.080(c).

\* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

STEVE COWPER  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

January 9, 1989

The Honorable Sam Cotten  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Cotten:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that gives legislative approval to a lease-financing project: the acquisition and refinancing of the Seward Student Service Center by the Alaska State Building Authority (ASBA). The terms of AS 36.30.080(c) and AS 18.55.100(d) require this legislative approval.

Provisions such as those in AS 18.55.100(d) and AS 36.30.080(c), requiring specific executive-branch activities to be submitted to the legislature for approval before they may proceed, raise a substantial question of constitutionality under the separation-of-powers doctrine. It has long been the Administration's position that such provisions are invalid. However, like my predecessors, I am aware of the legislature's interest in projects such as these and am, as a courtesy to the legislature, submitting these projects for approval.

Under AS 18.55.100(d), the bill authorizes ASBA to acquire the Seward Service Center and to provide financing for the acquisition. Under AS 36.30.080(c), the Department of Administration may enter into a lease-financing agreement with ASBA for the student center.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the typed name.

Steve Cowper  
Governor

MEMORANDUM

STATE OF ALASKA

DEPARTMENT OF REVENUE

TO: Alison Elgee  
Director  
Budget Review

DATE: September 23, 1988

FILE NO:

TELEPHONE NO: 465-2350

THRU:

SUBJECT: FY 90 Debt Service  
and Front Sections

FROM: Milton B. Barker *MB*  
Deputy Commissioner  
Department of Revenue

The amounts required for debt service and trustee fees to be paid by the State Bond Committee during FY 90 are:

	<u>Debt Service</u>	<u>Trustee fees</u>	<u>Fund Source</u>
General Obligation Bonds	\$120,306,290	\$80,000	General Fund
International Airports Revenue Bonds	8,707,584	30,000	International Airports Revenue Fund

"Front sections" of the general appropriations bill also are needed to appropriate the lease rental payments that the State is required to make to

1. the Alaska State Building Authority for lease of facilities constructed with the proceeds of lease revenue bonds issued by that agency, at the time, the Alaska State Housing Authority;
2. the City of Seward for lease of the Spring Creek Correctional Center which was constructed with the proceeds of Certificates of Participation issued by the City;
3. Delta Fox, Ltd. for lease of the Seward Student Service Center which was constructed with the proceeds of Certificates of Participation issued by Delta Fox, Ltd.; and

4. the City of Palmer for lease by the court System of a courthouse in Palmer which was constructed with the proceeds of revenue bonds issued by the City.

The State's lease payments are the security for the bond and certificates. As indicated by the attached letter from Standard & Poor's, failure to make these lease payments would have similar consequences for the State's credit standing and ability to borrow as a default on the State's general obligation bonds would have.

The "front section" should read:

- \* Sec. . The sum of \$12,106,257.68 is appropriated from the general fund to the State Bond Committee for lease payments to the Alaska State Building Authority, City of Seward, Delta Fox, Ltd., and the City of Palmer.

This appropriation is not net of a \$39,115.40 rebate of Seward Student Service Center rent that the Department of Administration receives pursuant to Section 5.6 of the Seward Student Service Center Commercial Lease (attached). The rebate is deposited in the general fund as unrestricted revenue.

The amounts of lease payments to maturity of the lease revenue bonds and certificates are as follows:

	<u>ASBA Bonds</u>	<u>Spring Creek</u>	<u>Student Service Center<sup>1</sup></u>	<u>Palmer Courthouse</u>
FY 90	\$ 6,555,108.39	\$ 4,333,923.84	\$ 850,697.95	\$ 366,527.50
FY 91	6,550,775.90	4,333,923.84	850,697.95	365,577.50
FY 92	6,567,048.41	4,333,923.84	850,697.95	366,117.50
FY 93-94	9,096,153.75	8,667,847.68	1,701,395.90	726,545.00
FY 95-06	<u>1,536,107.50</u>	<u>53,090,568.18</u>	<u>4,295,603.52</u>	<u>5,008,528.75</u>
	\$30,305,173.95	\$74,760,187.38	\$8,549,093.27	\$6,971,072.50

<sup>1</sup> These amounts are not net of the \$39,115.40 rebate. The amounts for FY 90 through FY 94 are escalated per Section 5.2 of the Commercial Lease assuming a 10% increase in the CPI and escalated further for FY 95 - 99 assuming a further 10% CPI increase to \$859,120.70 per annum.

Like previous general appropriations acts, an additional "front section" for FY 90 is required which would read as follows:

Alison Elgee  
Page 3  
September 23, 1988

\* Sec. . - The amount of the Rebate Requirement, as defined by Resolution No. 86-5 of the state bond committee, is appropriated from the International Airports Revenue Fund to the state bond committee for deposit in the Rebate Fund established by Resolution No. 86-5 of the state bond committee.

The section appropriates the arbitrage earned on International Airports Revenue Bonds, Series G, to a Rebate Fund for payment to the United States government. The arbitrage rebate is required by the Internal Revenue Code and regulations. The appropriation request from the International Airports Revenue Fund is required by section 16.09 of Resolution No. 86-5 of the State Bond Committee which authorizes the Series G bonds and which reads in part:

"Rebate Fund. There is hereby created and established with the Trustee a Rebate Fund. Notwithstanding anything in the Resolution to the contrary, amounts deposited in the Rebate Fund shall not constitute Revenues and are not pledged as security for payment of the Bonds of Series G or any other Bonds or obligations issued pursuant to the Resolution, but shall be held by the Trustee hereunder solely in trust for the benefit of the United States.

Prior to December 31 of each Fiscal Year, the State shall estimate the amount of the Rebate Requirement for the next succeeding Fiscal Year (including any deficiencies in the amounts deposited in the Rebate Fund with respect to any prior Fiscal Year), and shall include such amount in the budget for the Revenue Fund for such next succeeding Fiscal Year."

MBB/gb

Attachment

cc: Hugh Malone, Commissioner of Revenue  
Bob Link, Director, Division of General Services and Supply,  
Department of Administration

1 IN THE HOUSE

BY THE RULES COMMITTEE BY  
REQUEST OF THE GOVERNOR

2

HOUSE BILL NO. 74

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act approving acquisition and refinancing of the  
7 Seward Student Service Center by the Alaska State  
8 Building Authority, and approving a lease-financing  
9 agreement for the project; and providing for an  
10 effective date."

11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

12 \* Section 1. The Alaska State Building Authority may acquire the Seward  
13 Student Service Center in Seward and provide financing for the acquisition.

14 \* Sec. 2. Section 1 of this Act gives the approval referred to in  
15 AS 18.55.100(d).

16 \* Sec. 3. The Department of Administration may enter into a lease-  
17 financing agreement with the Alaska State Building Authority for the Seward  
18 Student Service Center in Seward.

19 \* Sec. 4. Section 3 of this Act gives the approval referred to in  
20 AS 36.30.080(c).

21 \* Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_ Agency Affected: State Bond Committee  
 Title: Authorizing Acquisition and BRU: \_\_\_\_\_  
Refinancing of Seward Student Service Center  
 Sponsor: \_\_\_\_\_ Components: \_\_\_\_\_  
 Requestor: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	(433.2)	(68.5)	(67.7)	(74.7)
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	(433.2)	(68.5)	(67.7)	(74.7)
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	(433.2)	(68.5)	(67.7)	(74.7)
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-

POSITIONS:

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

ANALYSIS: Attach a separate page for analysis.

Prepared By: Hilt Barker MB  
 Division: Treasury

Phone: 465-2350  
 Date: 12-19-88

Approved by Commissioner: [Signature]  
 Agency: Department of Revenue

Date: 12/19/88

Distribution (by preparer)  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

## Fiscal Note Analysis

The projected annual savings on refinancing the Seward Student Service Center through its acquisition by the Alaska State Building Authority is estimated in the table below.

The present value of the savings on the Seward facility would be \$1,203,001, representing a savings of 21.5 percent of the amount of bonds issued. This is far above the State Bond Committee's criteria of 3 percent savings to justify a refinancing.

The Seward refinancing would reduce the required lease payments to be made by the State Bond Committee for Seward as detailed in the attached September 23, 1988 memo. However, because the actual interest rate on the refunding debt--and therefore the actual reduction in debt service--will not be known until the bonds are sold, no reduction should be made to the \$12,106,257.68 appropriation to the State Bond Committee for FY 90 lease payments. The FY 90 savings would lapse and future appropriations would be reduced.

Please see the attached letter of January 18, 1989 from John Andrews for additional information on the Seward refinancing.

### Lease-Financing Costs (Savings)

<u>Fiscal Year</u>	<u>Seward Student Service Center</u>
1990	\$ (433,229)
1991	(68,476)
1992	(67,710)
1993	(74,661)
1994 to maturity	<u>(1,062,851)</u>
Total	\$(1,706,927)

30

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_ Agency Affected: Alaska State Building Auth  
 Title: Refinance of Seward Student BRU: \_\_\_\_\_  
Center  
 Sponsor: Rules Components: \_\_\_\_\_  
 Requestor: Governor

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

**FUNDING: (Thousands of Dollars)**

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

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

Prepared by: Julia Tucker *Julia Tucker* Phone: 562-2813  
 Division: Legal Department Date: 12/23/88

Approved by Commissioner: *[Signature]* Date: 12/23/88  
 Agency: Alaska State Building Authority

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: HB 74  
PUBLISH DATE: HOUSE 1/9/89

FISCAL NOTE

REQUEST:

Revision Date: \_\_\_\_\_  
Title: Acquisition and Refinancing of  
the Seward Student Service Center  
Sponsor: Rules  
Requestor: Governor

Agency Affected: Education  
BRU: Alaska Vocational Technical  
Center  
Components: Alaska Vocational Technical  
Center

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Marv Hakala Phone: 465-2800  
Division: Commissioner's Office Date: 12/12/88

Approved by Commissioner: William G. Demmert Date: 12/12/88  
Agency: Education

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)

Standard & Poor's Corporation  
25 Broadway, New York, New York 10004



December 29, 1983

RECEIVE  
JAN 03 1984

Mr. Milt Barker  
Deputy Commissioner  
Department of Revenue  
11th Floor State Office Bldg.  
Pouch, SB  
Juneau, Alaska 99811

ALASKA DEPARTMENT OF REV.  
TREASURY DIVISION  
JUNEAU

Dear Mr. Barker:

I would like to respond to your letter of December 13, regarding our views on lease obligations.

Lease Payments are viewed in essentially the same light as debt service on general obligation bonds; regardless of whether the obligation is cancellable due to non-appropriation. In fact, debt obligations secured by lease payments are included in our computations for overall debt burden.

Many states do not consider lease rental debt under debt limitation laws, primarily because legal interpretations view the obligations to pay rent as an annual budget item, and not a long term debt with a continuing appropriation. The fact remains, however, that the debt is still outstanding, and payable for as long as the property is being used by the lessee. While many leases permit non-payment of rent and cancellation of lease obligations, Standard & Poor's would be very concerned about an issuer's general obligation rating, in those cases where leases were cancelled as a ploy to avoid paying debt obligations.

I've enclosed some information regarding our approach to rating lease-rental debt obligations. If you have any further questions, feel free to contact Vladimir Stadnyk or myself at (212) 201-1767.

Very Truly Yours,

Richard P. Larkin  
Managing Vice President  
Municipal Finance Department

cc: V. Stadnyk  
T. Arthur

issued for each July. The percentage increase, if any, in the CPI issued for July 1989 and July 1994 over the CPI issued for July 1984 will determine the maximum allowable adjustment of variable costs over the original Rent. The adjustment is not cumulative; it is to be computed from the base CPI, July 1984 for both the 1990 and the 1995 adjustment actions. Adjusted annual Rental Rate will be computed as follows:

$[(10\% \times \text{Rent}) \times \% \text{ of change in CPI}] + \text{Rent} = \text{Adjusted Annual Rental Rate}$

No retroactive adjustments will be allowed:

### 5.3. State's Obligations and Remedies

State's obligation to pay Rent due with respect to the Premises and to perform and observe all other covenants and agreements of State contained herein shall be absolute and unconditional except for the failure of the Legislature to appropriate funds; and the Rent due and payable hereunder shall be made without notice or demand and without set-off, counterclaim, abatement, deduction or defense except that State may offset against the Rent an amount not to exceed \$10000 for claims due to State by Landlord under this Lease and the Ground Lease. However, nothing herein shall be construed to release Landlord from the performance of its obligation and State may institute such legal action against Landlord as State may deem necessary to compel the performance of such obligation.

### 5.4 Nonsubstitution

If this Lease is terminated by State in accordance with Section 3.1, State agrees for a period of one year that its Department of Education will not to construct, purchase, lease, operate, contract for or use any facilities which are functionally similar to the Premises or any of the uses which are functionally similar to any of the uses of the Premises, and agrees not to permit functions similar to those performed through the use of the Premises to be performed by an agency or entity affiliated with or hired by or for the Department of Education.

### 5.5 Budget Request and Appropriation

State will, prior to the commencement of each fiscal year for which this Lease is in effect, include the Rent due in such fiscal year in its annual budget request to the Legislature. State agrees to use any appropriation legally available for the Rent and to immediately encumber available appropriations for such payments prior to allocating or encumbering funds for the projects or costs for which no legal obligation to pay exists.

### 5.6 Consideration for Advance Rent

Concurrently with the payment by State of the Annual Rent, Landlord shall pay to State the sum of \$39,115.40 as consideration for payment of the Rent one year in advance, except that such payment shall be proportionately reduced to the extent that State exercises a right of offset pursuant to Section 5.3.



January 12, 1989

The Honorable Sam Cotten  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Cotten:

The assistance of the Alaska State Building Authority has been requested by the Alaska Department of Administration to provide lease-financing for a public building--the Seward Student Service Center. The project is being submitted for review by the legislature pursuant to AS 18.55.100(d).

The project is essentially a refinancing of an existing State lease-financed project. The refinancing would result in substantial savings in lease rental payments over the payment schedule to which the State is now committed. The refinancing contemplates a purchase by the Authority of the facility from the current lessor, Delta Fox, Ltd. (formerly Dick Fischer Development, Inc.). The Authority would issue financing in an amount sufficient to provide the \$4,988,016 needed for the purchase as well as a reserve fund and costs of issuance. The Department of Revenue has estimated an issuance of \$5,600,000 for the Student Center. The new lease of the facility to the State is estimated by the Department of Revenue to result in present value savings in State rental payments of \$1,203,001. The enclosed letter from Commissioner John Andrews contains information in more detail concerning this refinancing.

Under AS 18.55.100(d), approval by law of the project is a prerequisite to the undertaking of any public building project by the Authority.

The Alaska State Building Authority welcomes this opportunity to serve the State in realizing cost savings in the financing of public building projects.

Sincerely,

ALASKA STATE BUILDING AUTHORITY

Ray Price  
Executive Director

Enclosure

jt:ss:c:\wp50\rp\1\rpsc.1

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200

January 18, 1989

The Honorable Sam Cotten  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

*Teleconference*  
-ASBA-  
786-622]  
JOHN  
5040

Dear Mr. Speaker:

In compliance with AS 36.30.080(c), I wish to inform you that the Department of Administration tends to enter into a lease-financing agreement for the Seward Student Service Center which may have annual rent in excess of \$1,000,000 to be paid by the State. The agreement is expected to be with the Alaska State Building Authority (ASBA) as lessor. The State would assign its purchase option under an existing lease-financing agreement to ASBA. ASBA would issue debt and use the proceeds to exercise the purchase option. State lease rental payments under the new lease-financing agreements with ASBA would pay the debt service on ASBA debt. The reason for this undertaking is that the State's lease rental payments would decrease significantly under the new lease-financing agreement as a result of declines in interest rates. The current lessor's proceeds from sale of the leased facilities to ASBA will be used to payoff currently outstanding debt issued by the current lessor.

Under the proposed lease-financing agreement, ASBA would acquire the Seward Student Service Center from Delta Fox, Ltd. (formerly Dick Fischer Development, Inc.) at one of the prices listed below:

### Seward Student Service Center

<u>Closing Date of Property Sale</u>	<u>Price</u>
July 1 - July 30, 1989	\$4,988,016.00
July 1 - July 30, 1990	\$4,717,860.00
July 1 - July 30, 1991	\$4,422,324.30
July 1 - July 30, 1992	\$4,094,640.00
July 1 - July 30, 1993	\$3,778,756.00
July 1 - July 30, 1994	\$3,360,876.00
July 1 - July 30, 1995	\$2,942,952.00
July 1 - July 30, 1996	\$2,474,832.00
July 1 - July 30, 1997	\$1,952,004.00
July 1 - July 30, 1998	\$1,370,520.00
July 1 - July 30, 1999	\$ 722,484.00

The Seward Student Service Center is a student lounge and recreation complex for the Alaska Vocational-Technical (Vo-Tec) Center at Seward. The Vo-Tec Center is the only State-operated adult vocational training facility in the State. The Center was completed and occupied by the State in April 1985.

Assuming the sale is closed during July 1 to July 30, 1989, the purchase price would be \$4,988,016. The anticipated amount of the ASBA financing for this project would be \$5,600,000 including the costs of issuance. The resulting anticipated annual lease rental payments by the State compared to existing payments would be:

Seward Student Service Center

<u>Fiscal</u> <u>Year</u>	<u>Anticipated Rent</u>	<u>Existing Rent</u> <sup>1/2/</sup>	<u>Savings</u>
1990	\$ 764,307	\$ 803,160	\$ 433,229 <sup>3/</sup>
1991	737,872	806,348	68,476
1992	741,840	809,550	67,710
1993	738,102	812,763	74,661
1994	742,352	815,990	73,638
1995	738,915	819,230	80,315
1996	738,037	822,482	84,445
1997	739,337	825,747	86,410
1998	742,097	829,025	86,928
1999	<u>181,202</u>	<u>832,317</u>	<u>651,115</u>
<b>TOTAL</b>	<u>\$6,864,061</u>	<u>\$8,176,612</u>	<u>\$1,706,927</u>

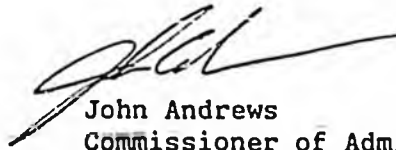
Notes to Seward Student Service Center Table:

1. 1990 and later existing rents are reduced by the credit for payment one year in advance.
2. 1991 and later existing rents have been escalated by the July 1984 to July 1986 increase in the Anchorage CPI pursuant to inflation adjustment provision of the lease.
3. 1990 savings includes \$394,375.80 rebate under existing lease calculated as follows: June 10, 1989 Existing Rent Payment of \$842,275.20 - \$39,115.40 credit for payment one year advance - (\$6,090,000 certificates outstanding + 2% call premium of \$121,800 - \$4,988,016 purchase price - \$815,000 reserve fund).

Page 3

The present value of the savings to the State is estimated at \$1,203,001 using the estimated 6.7542 percent true interest cost on the proposed ASBA financing.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Andrews", with a long horizontal flourish extending to the right.

John Andrews  
Commissioner of Administration

JA/MB/gb

8534H

# HOUSE COMMITTEE REPORT

(7)

Date Referred: January 9, 1989

FURTHER REFERRALS: STATE AFFAIRS  
FINANCE

Date of Committee Action: \_\_\_\_\_

The HEALTH, EDUCATION & SOCIAL SERVICES Committee recommends that:

HOUSE BILL NO. 74 [SEWARD STUDENT SERVICE CENTER]

"An Act approving acquisition and refinancing of the Seward Student Service Center by the Alaska State Building Authority, and approving a lease-financing agreement for the project; and providing for an effective date."

be replaced with CS HB 74 (HESS)  the same title  
 a new title

have attached amendment(s)

- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- fiscal impact
- zero fiscal note
- zero with analysis

APPROVES PREVIOUS:

- fiscal note(s) published: 1/9/89
- 2  zero fiscal notes(s) published: 1/9/89

SIGNING DO PASS:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

NOT MEMBER / NO REC  
Cheri Davis NO REC  
Peter Jace NO REC  
MARK BAYON NO REC  
Ellis NO REC

Ellis  
 Chairman's signature



Official Business

**COMMITTEE:**

House HESS Committee

**DATE:** February 2, 1989

**SIGN-IN**

**Subject of meeting:**

- HB 74 - Seward Student Service Center
- HB 24 - TRS credited service; part-time teachers
- HB 89 - Teachers retirement eligibility
- HB 10 - Student loan health care
- HB 21 - School district labor negotiations

NAME	ADDRESS - Include ZIP	PHONE	(Include Title) REPRESENTING	If testifying, specify bill
TOMAS Boutin	ALASKA Dept. of Revenue	765-2350	ALASKA Dept. of Rev.	re HB 74
Sally Swick	Dept. Admin	4470	Ret. & Ben	B/1 24
RON PHIPPS	AK. Comm on Postsec Ed	2854	Exec. Dir	HB10
Sharon Young	316 W. 11 <sup>th</sup> St Assoc. of AK School Boards	6-1083	Dir. of Membership Services	21
Steve McPhetres	326 4 <sup>th</sup> St 408	9702	Hic Council of School Admin	21
Kate Talar	Box V	4947	Rep Ulmer	24
Judy Sato	105 Municipal Way	6-3090	N-BA	21

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 21, 1989

SUBJECT: Separation of powers doctrine and HB 74  
TO: Representative H.A. "Red" Boucher  
FROM: Theresa Bannister *TB*  
Legislative Counsel

You have requested our views regarding the constitutional issue raised by Governor Cowper in his transmittal letter for HB 74. In that letter he maintains that the position of the executive branch is that the legislative approval requirement of AS 18.55.100(d) and AS 36.30.080(c) violates the separation of powers doctrine in the state constitution. He does not challenge the statutory provisions but is content with expressing the position while complying with the statutes.

The purpose of the separation of powers doctrine is to avoid too great a concentration of power in one branch of government. The doctrine precludes one branch from exercising the powers of another branch or intruding into the functions of another branch. This separation of powers doctrine has been held to be implicit in the state constitution. Alaska State-Operated School System v. Mueller, 536 P.2d 99 (Alaska 1975); Public Defender Agency v. Superior Court, 534 P.2d 947 (Alaska 1975); State v. Carlson, 555 P.2d 269 (Alaska 1976). The separation of powers doctrine requires that the blending of governmental powers will not be inferred in the absence of an express constitutional provision. Bradner v. Hammond, 553 P.2d 1 (Alaska 1976).

The issue that is raised here is whether the legislature can require the executive branch to obtain the legislature's approval before proceeding with certain projects. AS 18.55.100(d) prohibits the Alaska State Building Authority from proceeding with a public building project unless the project has been approved by the legislature. AS 36.30.080(c) prohibits the executive branch from entering into a lease or lease-financing agreement over \$1,000,000 without legislative approval.

Representative H. A. "Red" Boucher  
Page 2  
February 21, 1989

The governor can argue that the decision whether to proceed with these projects is committed to the discretion of the executive branch, and, that, therefore, the legislature has no right to interfere. This is based on the governor being charged constitutionally with executing the laws. Sec. 16, art. III, Constitution of the State of Alaska. Once the legislature establishes the criteria for the projects by statute, the executive branch applies the criteria and makes the decisions. The governor can then argue that by reserving to itself the power to decide whether to implement a project, the legislature is actually administering the statutes.

The legislature's response to such an argument would be that the approval requirement serves the important purpose of legislative oversight over large projects. Since the projects are the type that will require continuing budget appropriations by the legislature, initial legislative approval will help to insure that the projects will continue to receive legislative appropriations in the future. The legislature could also argue that the approval is just an adjunct to the legislature's undisputed power to provide for the appropriation of money. Enourato v. New Jersey Building Authority, 448 A.2d 449, 453-455 (N.J. 1982); Baliles v. Mazur, 297 S.E.2d 695, 700-701 (Va. 1982).

The Alaska supreme court has not decided this exact issue, and it would be difficult to predict what it would do. However, as you can see, there is precedent in other states for the legislative position proposed above.

If I may be of further assistance, please advise.

TB:kb  
wkk2/029

STATE OF ALASKA  
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY  
LEGISLATIVE REFERENCE LIBRARY

POUCH Y - STATE CAPITOL  
JUNEAU, ALASKA 99811  
907-465-3800

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS database CMFR. In order to save space copies of minutes have not been left in the files.

Mary Van Nimwegen

HB 74

H. NESS

2/3/89



**Н В**

**79**

**HOUSE COMMITTEE ON STATE AFFAIRS**

**RECAP OF  
HB 79**

**Operating Costs of Capital Improvements**

Received January 11, 1989  
by Rep. M. Davis

Heard March 8, 1989

Committee Substitute adopted March 8, 1989

Passed Out of Committee March 8, 1989  
4 Do Pass  
1 No Recommendation

## TABLE OF CONTENTS

### HB 79: Operating Costs of Capital Improvements

- Item 1:** HB 79 by Rep. M. Davis  
CS HB 79 (SA)
- Item 2:** Memorandum from Rep. Davis  
February 28, 1989
- Item 3:** Proposed Amendment Language  
Draft 6-0335Ab
- Item 4:** Fiscal Notes and Analysis from DOT/PF,  
Community and Regional Affairs, and University  
of Alaska
- Item 5:** Alaska Municipal League Policy Statement 1989
- Item 6:** Memorandum from Rep. M. Davis re: CSHB 9  
April 15, 1987
- Item 7:** Alaska Legislative Procedures Study Final Report  
May 15, 1983
- Item 8:** Research Request 83-59  
Effect of Capital Projects on Operating Budget  
April 4, 1983

# HOUSE COMMITTEE REPORT

(5)

Date Referred: January 11, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: \_\_\_\_\_

The STATE AFFAIRS Committee recommends that:

HOUSE BILL NO. 79 [OPERATING COSTS OF CAPITAL IMPROVEMENTS]  
"An Act relating to projected operating and maintenance costs of capital improvements."

be replaced with CS HB 79 (SA)  the same title  
 have attached amendment(s)  a new title

have attached amendment(s)

do pass  
 do not pass  
 no recommendation  
 individual recommendations  
 additional referral to the \_\_\_\_\_ Committee

ADOPTS: \_\_\_\_\_ letter of intent

ATTACHES NEW FISCAL NOTE (S):

fiscal impact  
 zero fiscal note  
 zero with analysis DOT/PF, CBA, UAA

APPROVES PREVIOUS:

fiscal note(s) published:  
\_\_\_\_\_  
 zero fiscal notes(s) published:  
\_\_\_\_\_

SIGNING DO PASS:

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

\_\_\_\_\_  
*David Dunley*  
\_\_\_\_\_  
*[Signature]*  
\_\_\_\_\_  
*[Signature]*  
\_\_\_\_\_  
*[Signature]*  
\_\_\_\_\_  
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\_\_\_\_\_  
*Alyce Hanley - No-Rec*  
\_\_\_\_\_  
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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*[Signature]*  
Chairman's signature



# Alaska State Legislature

Representative Mike Davis

District 19

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-4930/4941

Interim Office  
P.O. Box 81435  
Fairbanks, Alaska 99708  
(907) 456-8161

TO: House State Affairs Committee

FROM: Rep. Mike Davis

DATE: February 28, 1989

SUBJECT: HB 79:  
Operating and Maintenance Costs of Capital Projects

---

In an era of decreasing revenue, it is essential that the legislature and the public know the ongoing costs associated with capital projects.

HB 79 requires that fiscal notes be attached to appropriation bills for capital improvements, identifying the projected annualized O & M costs and the entities responsible for payment.

Under the provisions of HB 79, it is the responsibility of the legislature to ensure that bills proposing capital improvements be accompanied by O & M projections at the time of introduction. The governor is required to provide the information for each project in his capital improvements program.

Passage of HB 79 will provide the legislature, municipalities, and non-profits with information necessary for the consideration of capital projects and long range financial planning.

At the same time, O & M projections should not be costly or difficult to obtain. State agencies and some municipalities already calculate the operating and maintenance costs of their capital improvement requests. The Department of Community and Regional Affairs has the authority to assist unincorporated municipalities with this work.

I urge your support for this legislation.

Item 3

6-0335Ab  
Utermohle

A M E N D M E N T

OFFERED IN THE HOUSE

TO: HB 79

BY M. DAVIS

Page 1, line 15:

Delete "improvement,"

Insert "improvement including the cost of preventive maintenance,"

Page 4, line 17, following "condition":

Insert "; "operating and maintenance costs" includes the cost of preventive maintenance"

*Item 4*

**STATE OF ALASKA  
1989 LEGISLATIVE SESSION**

BILL VERSION: HB 79  
PUBLISH DATE: 1/11/89

**FISCAL NOTE**

**REQUEST:**

Revision Date: \_\_\_\_\_  
Title: Projected Operating and  
Menc. Costs for Capital Impr.  
Sponsor: M. Davis  
Requestor: M. Davis

Agency Affected: DOT&PF  
BRU: \_\_\_\_\_  
Components: \_\_\_\_\_

**EXPENDITURES/REVENUES: (Thousands of Dollars)**

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>CAPITAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>REVENUE</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**FUNDING: (Thousands of Dollars)**

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**POSITIONS:**

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

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

The department provides maintenance and operations estimates for our capital projects submitted as a part of the capital budget. Assuming that the capital budget forms filed by the Governor suffice for the fiscal note requirement, our concerns in this legislation are for those appropriations introduced by the legislative branch.

(CONTINUED)

Prepared by: Bob B. Lind Phone: 465-2171  
Division: Plan. Programs & Budget Date: 2/27/89

Approved by Commissioner: Mark S. Hickey Date: 3/1/89  
Agency: Department of Transportation and Public Facilities

**Distribution (by preparer) :**

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

## CONTINUATION of FISCAL NOTE ANALYSIS

For Bill/Resolution No. HB 79

If the fiscal note request is given in a timely manner, allowing the department five days for its preparation, there will be no additional cost to the department of providing maintenance and operating costs for capital improvements appropriated to the department. The analysis assumes that appropriations for repair and restoration related to items which already exist are not capital improvements and that last minute changes to appropriation bills with a major number of improvements are not covered by this legislation. Otherwise, substantial overtime costs could be incurred by personnel in an attempt to respond with fiscal notes in the time available.

2/27/89

## FISCAL NOTE

**REQUEST:**

Revision Date: \_\_\_\_\_  
 Title: "An Act..projected operating and maintenance costs..capital improvements."  
 Sponsor: Rep. M. Davis  
 Requestor: \_\_\_\_\_

Agency Affected: Community & Regional Affairs  
 BRU: \_\_\_\_\_  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
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**FUNDING:** (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

**POSITIONS:**

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

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

*Jim Plasman*  
 Prepared by: Jim Plasman, Deputy Director Phone: 465-4750  
 Division: Municipal & Regional Assistance Date: 2-28-89  
 Approved by Commissioner: *[Signature]* Date: 2-28-89  
 Agency: Community & Regional Affairs

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)



Brian Rogers  
Vice President for Finance  
(907) 474-7448

University of Alaska  
Fairbanks, Alaska 99775-5260

March 2, 1989

The Honorable Mike Davis  
P. O. Box V  
Juneau, Alaska 99811

RE: Fiscal Note for House Bill 79

Dear <sup>Mike</sup> Representative Davis:

Enclosed is a copy of the University's fiscal note for House Bill 79.  
The University expects zero fiscal impact for the proposed legislation.

If you have any questions about the note, please do not hesitate to  
contact me or Marsha Hubbard, Director for Statewide Budget at 474-  
7593.

Sincerely,

A handwritten signature in black ink, appearing to read "BR" with a flourish underneath.

Brian Rogers  
Vice President for Finance

Enclosure

cc: Gina Spartz, Administrative Assistant for Legislative Finance  
Alison Elgee, Division Director for Office of Management & Budget

## FISCAL NOTE

**REQUEST:**

Revision Date: -0-  
 Title: Projected Operating and Maintenance Costs of Capital Improvement  
 Sponsor: Representative Mike Davis  
 Requestor: \_\_\_\_\_

Agency Affected: University of Alaska  
 BRU: \_\_\_\_\_  
 Components: \_\_\_\_\_

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL						
CONTRACTUAL			0	0	0	0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

CAPITAL						
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REVENUE						
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**FUNDING:** (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
<b>TOTAL</b>						

**POSITIONS:**

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

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

Prepared by: John Nickles  
 Division: Facilities Planning and Construction  
 Approved by Commissioner: [Signature]  
 Agency: Vice President University of Alaska

Phone: 474-7591  
 Date: 2/23/89  
 Date: 3/1/89

Distribution (by preparer):  
 Legislative Finance  
 Legislative Sponsor  
 Requestor  
 Office of Management and Budget  
 Impacted Agency(ies)

# Alaska Municipal League Policy Statement

## 1989



Adopted at the Business Meeting  
of the 38th Annual Local Government Conference  
of the  
**ALASKA MUNICIPAL LEAGUE**  
Fairbanks, Alaska  
November 18, 1988

## F. FISCAL NOTES/GOVERNMENTAL MANDATES

1. **Fiscal Notes:** The League supports enactment of legislation requiring the State to prepare, in consultation with the impacted local governments, notes assessing the fiscal impact on local government of any proposed bill or regulation, including pass-through grants.

Numerous bills are introduced each year that would have an impact on the cost of the operation of the local governments. However, it appears that no analysis and little thought are given to the actual impact such legislation would have on affected municipalities. In order to assist the municipalities and the Legislature in making informed decisions about such legislation, fiscal notes assessing the fiscal impact on local government of such bills are necessary.

2. **Governmental Mandates:** The League urges passage of legislation that would require the transferring governmental agency to reimburse municipalities for costs they incur in programs or activities mandated or transferred by the State or federal government at other than the request of the municipalities.

Proposals are occasionally made to require municipalities to undertake programs or activities for which there is either inadequate or no reimbursement. Proposals that shift the burden of such programs to municipalities should provide adequate reimbursement to the municipalities for the administration of such programs.

## G. FEDERAL ISSUES

1. **Federal Assistance:** The League supports federal recognition of the federal-local partnership in providing governmental services to citizens through federal assistance to local governments.

2. **Outer Continental Shelf (OCS) Revenue Sharing:** The League endorses enactment by the United States Congress of an OCS revenue sharing program, to be funded annually from the proceeds of the oil and gas lease sales on the OCS at a fair and equitable level. The League also endorses an automatic direct pass-through of a fair and equitable amount of the State's allocation under this program to communities affected by OCS activities. Further, the League endorses the concept that the State's and communities' allocation of OCS revenue sharing funds be used for coastal planning, resource protection programs, construction of capital infrastructure resulting from direct OCS activity, and health and social service needs resulting from OCS activity.

For the past several years, federal Ocean and Coastal Resource Management has expected state coastal districts to rewrite portions of their plans making concessions to accommodate the oil and gas industry. This creates extra work for state agencies and coastal districts developing coastal plans at the same time federal funding is being cut. Coastal districts have accommodated the industry as much as possible, often compromising their plans more than they would have liked in order to obtain federal approval. Since the compromises to oil and gas made by coastal districts will enable

Item 6



# Alaska State Legislature

Representative Mike Davis

P.O. Box V  
Juneau, Alaska 99811  
(907) 465-4930/4941

Interim Office:  
P.O. Box 81435  
Fairbanks, Alaska 99708

MEMORANDUM

To: House Members

From: Rep. Mike Davis

Date: April 15, 1987

Re: CSHB 9 (Fin); Relating to projected operating and maintenance costs of capital improvements.

The passage of CSHB 9 would provide budgetary reform in the drafting of the state's capital budget. This bill would create greater fiscal responsibility in the state by providing legislators with an assessment of the projected operating and maintenance costs of a capital improvement under consideration. CSHB 9 applies only to capital improvements that have been submitted in legislation.

CSHB 9 requires that projected operating and maintenance costs, annualized over the life of the capital improvement, be included in a fiscal note attached to an appropriation bill before the bill is passed out of the first committee of referral. The fiscal note must also include the source of funding for the operating and maintenance costs. CSHB 9 also requires that this information be included in the governor's economic data and projections for use in evaluating the state's capital improvements program.

Under the provisions of CSHB 9, ultimate responsibility for providing the projected O&M costs in the fiscal note resides with the legislator requesting the capital improvement through legislation. Projected O&M costs would be received by asking that this information be provided by the party requesting the capital improvement.

This legislation is not expected to be costly or burdensome to requestors of state grants for capital improvements, and projected O&M costs could be determined at the same time that the cost is determined for the capital improvement itself. State agencies and some municipalities already provide projected O&M costs in their capital improvement requests.

**Sec. 24.08.030. Appropriation bills.** Bills for appropriation shall be confined to appropriations and shall include the amount involved and the purpose, method, manner and other related conditions of payment. (§ 31 ch 157 SLA 1959)

Revisor's notes. — Formerly AS 24.30.030. Renumbered in 1985.

**Sec. 24.08.035. Fiscal notes on bills.** (a) Before a bill or resolution, except an appropriation bill, is reported from the committee of first referral, there shall be attached to the bill a fiscal note containing an estimate of the amount of the appropriation increase or decrease which would result from enactment of the bill for the current fiscal year and five succeeding fiscal years or, if the bill has no fiscal impact, a statement to that effect shall be attached. The fiscal note or statement shall be prepared in conformity with the requirements of this section by the department or departments affected and may be reviewed by the office of management and budget. The fiscal note or statement shall be delivered to the committee requesting it within five days of the request or within two days if the request is made after the 90th day of a regular session, or during a special session of the legislature. If the bill is presented by the governor for introduction in accordance with AS 24.08.060(b) and the uniform rules of the legislature, the fiscal note or statement shall be attached to the bill before the bill is introduced. An amendment or a substitute bill proposed by a committee of referral that changes the fiscal impact of a bill shall be explained in a revised fiscal note or statement attached to the bill.

(b) In addition to the fiscal note required by this section, the sponsor of a bill or resolution may prepare a fiscal note in conformity with the requirements of this section and submit it to the committee of first referral or the finance committee. A committee may prepare an additional fiscal note in conformity with the requirements of this section.

(c) A fiscal note for a bill or resolution must contain the following information:

- (1) the fiscal impact on existing programs;
- (2) the fiscal impact of new programs or activities;
- (3) a line item detail of the fiscal impact;
- (4) the source of funds expected to be utilized by general fund source, federal fund source, or other identified source;
- (5) the number of new positions which may be required, identified as full-time, part-time, or temporary;
- (6) an analysis of how the figures in the fiscal note were derived;
- (7) additional information necessary to explain the fiscal note;

— 24.08.210)

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accomplishing

(8) a fiscal impact projection for the current fiscal year and for the succeeding five fiscal years; and

(9) formal information consisting of

(A) the bill or resolution number,

(B) the name of the prime sponsors,

(C) the date the fiscal note was prepared,

(D) the name of the committee requesting the fiscal note,

(E) the name and phone number of the person who prepared the fiscal note, and

(F) the budget request unit, program, or subprogram affected.

(d) The original of a fiscal note shall be submitted to the Division of Legislative Finance and copies shall be sent to the prime sponsor, the committee requesting the fiscal note, and the office of management and budget. (§ 1 ch 153 SLA 1968; am § 1 ch 20 SLA 1972; am § 1 ch 42 SLA 1976; am § 2 ch 60 SLA 1979; am §§ 3, 4 ch 63 SLA 1983)

Revisor's notes. — Formerly AS 24.30.035. Renumbered in 1985.

Effect of amendments. — The 1983 amendment designated the existing language as subsection (a) and added subsections (b), (c), and (d); and in present subsection (a), in the first sentence inserted "or resolution, except an appropriation bill," following "Before a bill" and

substituted "current fiscal year and five succeeding fiscal years" for "ensuing fiscal year and at least two succeeding fiscal years", in the second sentence inserted "in conformity with the requirements of this section" and added the language beginning "and may be reviewed", and inserted the present third sentence.

Sec. 24.08.036. Fiscal notes on bills affecting state retirement systems. Before a bill which would have an effect on the retirement systems of the state is reported to the rules committee, there shall be attached to the bill an analysis of the long-term and short-term costs to the state if the bill is adopted, as well as the impact of the bill on the actuarial soundness of the fund. The analysis is in addition to the fiscal note requirements of AS 24.08.035. (§ 2 ch 130 SLA 1977; am § 3 ch 60 SLA 1979; am § 81 ch 6 SLA 1984)

Revisor's notes. — Enacted as AS 24.30.037. Renumbered as AS 24.30.036 in 1977. Renumbered again in 1985.

amendment deleted "shall be prepared by the Legislative Board of Retirement Benefits and" following "analysis" in the second sentence.

Effect of amendments. — The 1984

Sec. 24.08.037. General obligation bond bills. A bill authorizing the issuance of general obligation bonds creating a state debt for capital improvements shall contain a statement of the scope of each project included in the proposed bond issue. The statement shall include a brief description of each capital improvement project, its location, and, in dollars, that portion of the total bond issue to be allocated to the project. (§ 2 ch 70 SLA 1973; am § 30 ch 197 SLA 1975)

Revisor's notes. 24.30.037. Renumbered. Cross references relating to the respo

Sec. 24.08.040 shall be: "Be it (§ 32 ch 157 SLA

Revisor's notes. 24.30.040. Renumbered

Sec. 24.08.050 of the legislature legislature, or proposal for a bill any time before resolution, which deliver it to the which the next bills or resolution their delivery SLA 1961; am §

Revisor's notes. 24.30.050. Renumbered

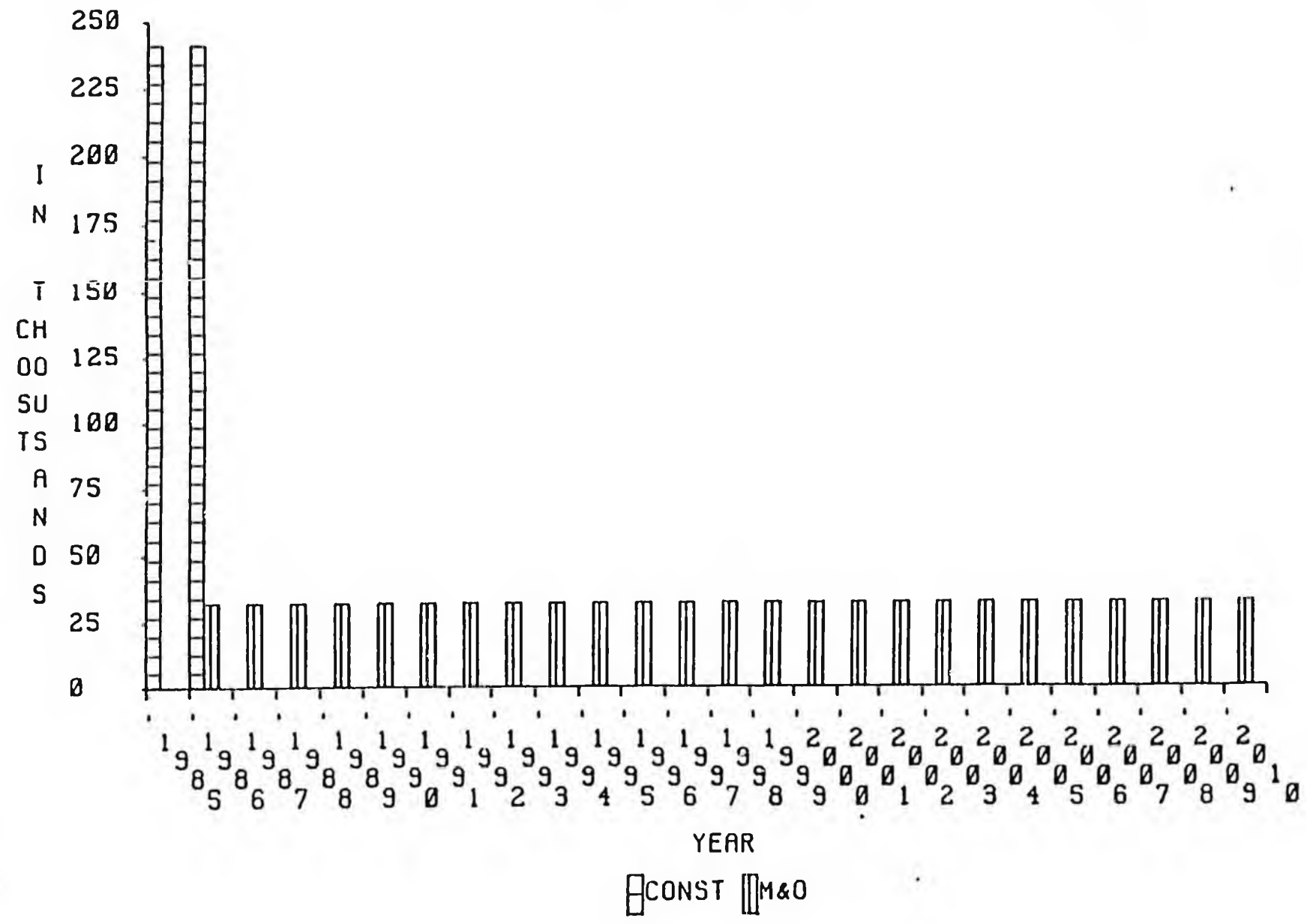
Sec. 24.08.050 ture or a comm the active mem may introduce prepared and uniform rules

(b) Bills introduced with a letter of bear the inscription Council"; bills Committee shall committee of by Request of bills introduced be delivered either house the Legislative governor shall

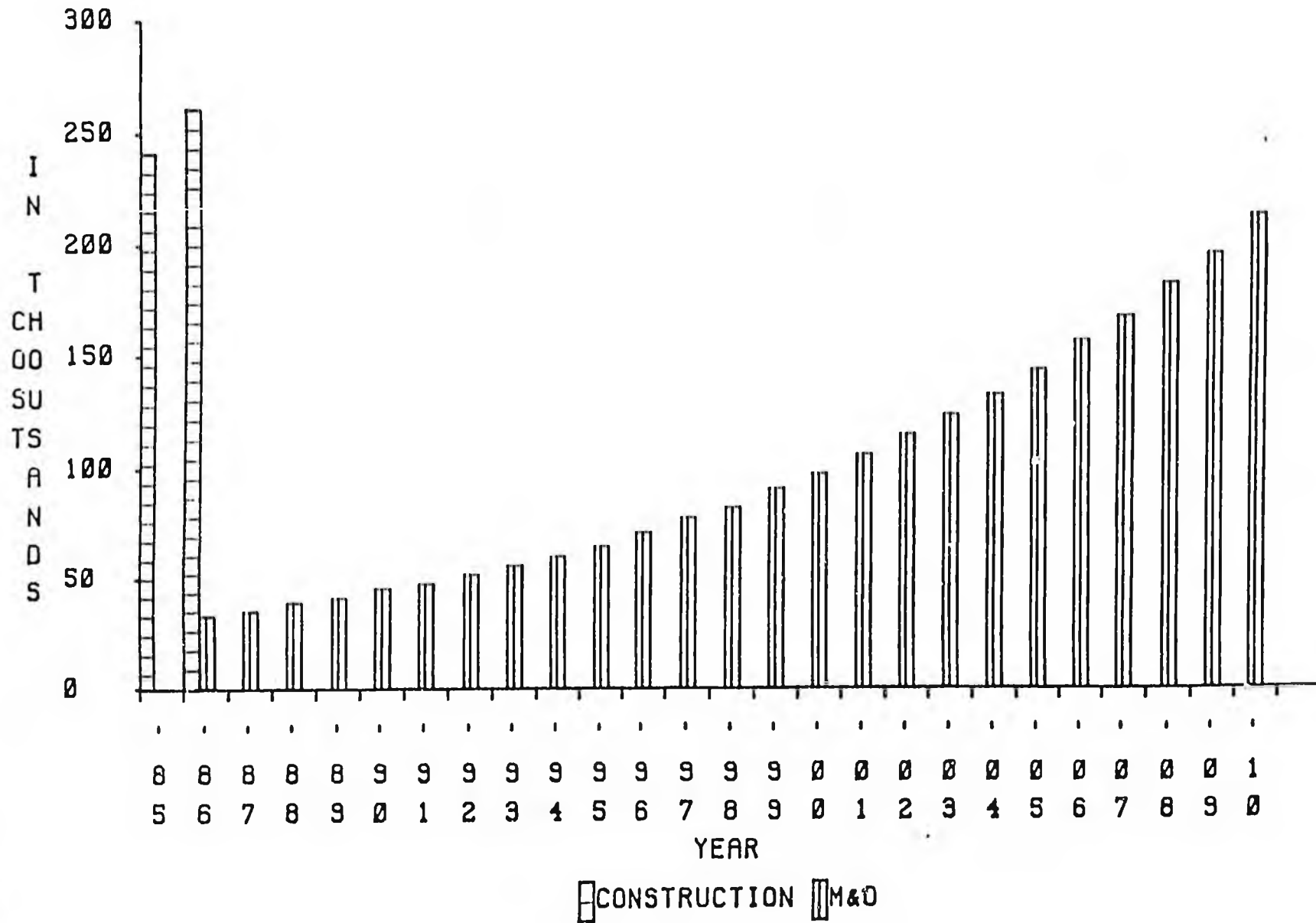
(13) HB4

Handout to CRA Com.  
by A.W. Longacre, DCRA  
3/16/67

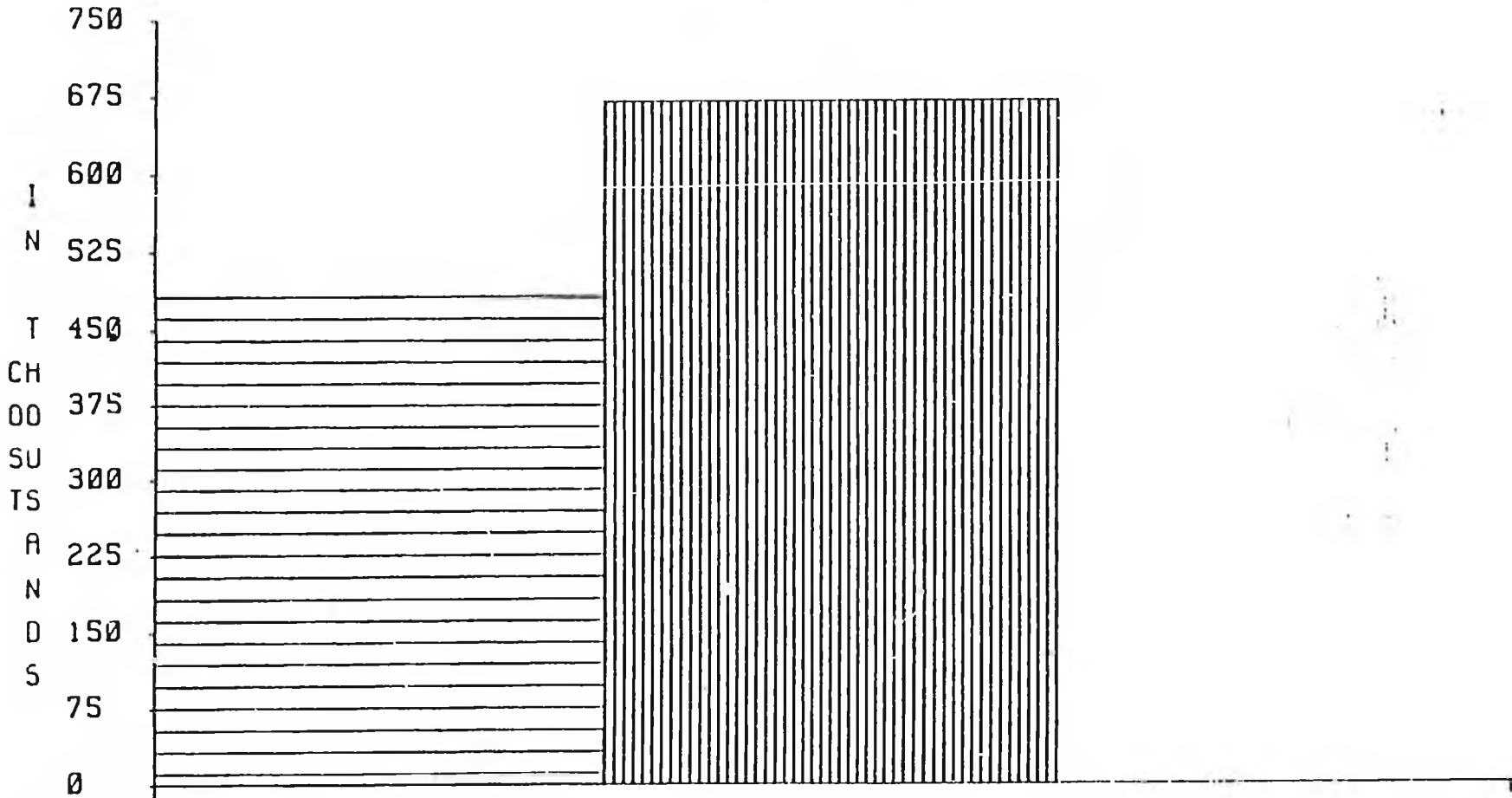
### CONSTRUCTION VS M&O WITH ZERO INFLATION



COMPARISON OF  
CONSTRUCTION VS. M&O  
WITH EIGHT PERCENT INFLATION

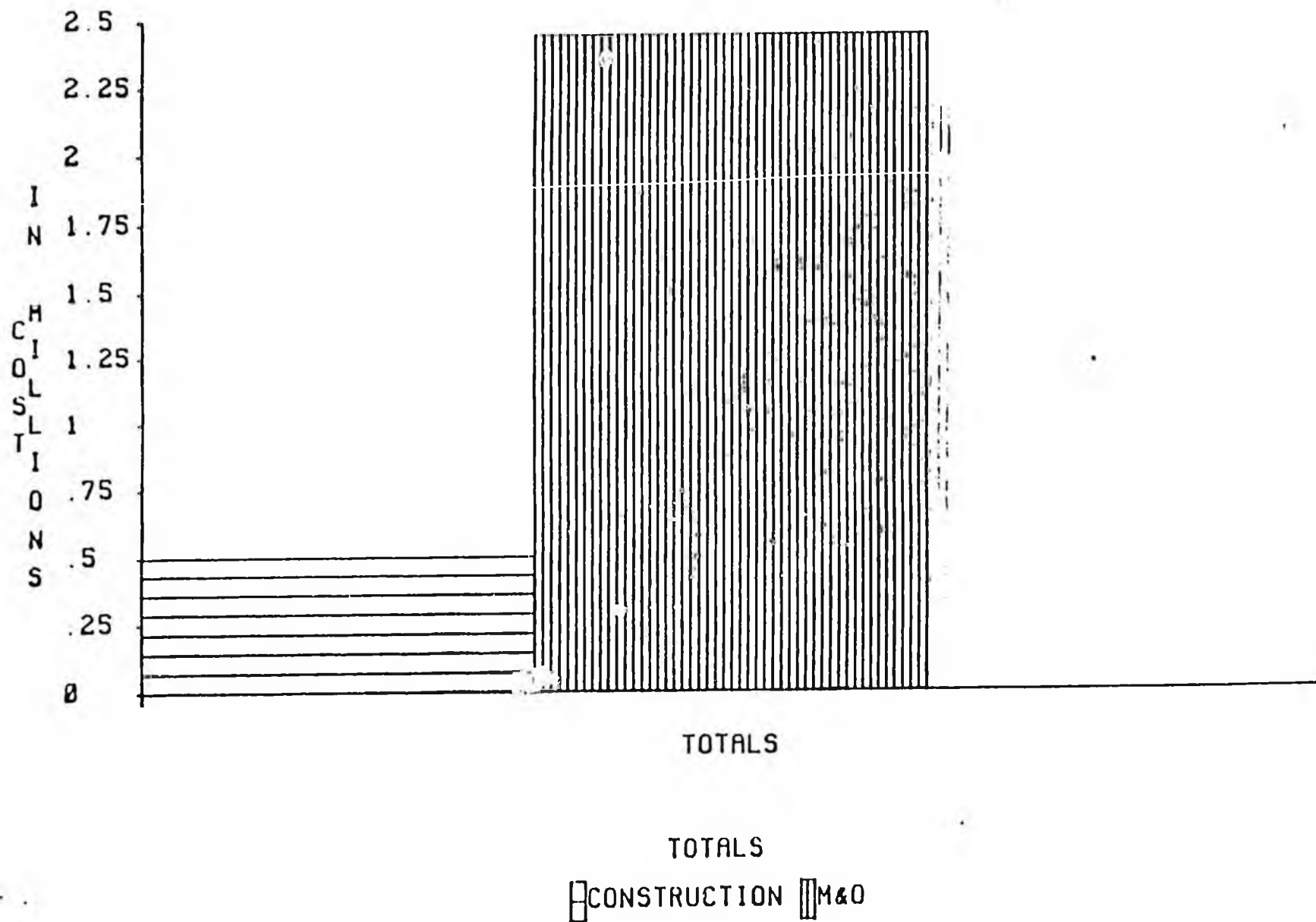


LIFETIME TOTALS  
CONSTRUCTION VS M&O  
WITH ZERO INFLATION



□ CONST ▨ M&O

COMPARISON OF LIFE CYCLE COSTS  
 CONSTRUCTION VS. M&O  
 WITH EIGHT PERCENT INFLATION







ALASKA LEGISLATIVE PROCEDURES STUDY

FINAL REPORT

Submitted to:

The Joint Special Committee on Legislative Reform



Prepared by the

NATIONAL CONFERENCE OF STATE LEGISLATURES

1125 Seventeenth Street, Suite 1500

Denver, Colorado 80202

May 15, 1983

2. The Alaska Legislature should develop a standard form for capital projects which describes the purpose of and need for each project. A completed form should accompany each proposed capital project and be available for public inspection.

Discussion: In order to make well-informed decisions about capital projects, legislators need detailed information on the purpose of and need for each proposed project. Several legislators expressed frustration over the often inadequate documentation for proposed capital projects--especially local projects.

The standard form should include, at minimum, the following elements:

- Project title
- Project purpose
- Project justification (e.g., needed to protect health or welfare of citizens, to respond to court order, to encourage economic development, etc.)
- Alternative ways of dealing with the problem at hand
- Alternative funding sources if project is not funded
- Estimated capital expenditure requirements over the next five years, by year
- Estimated operating expenses which will be generated by this project, over the next five years, by year

A compendium of the completed capital project forms should accompany the proposed state and local capital budgets when they are taken up for consideration by the finance committees.

3. Legislative Finance Division staff or consultants should be responsible for reviewing all capital project proposals to see if the fiscal notes included are reasonable.

Discussion: In recent years, millions of dollars have been expended by the Alaska Legislature from various capital funds administered in various years. This suggests that capital project expenditures were not necessarily judicious. It is the intent of this recommendation to ensure that



ALASKA STATE LEGISLATURE  
HOUSE OF REPRESENTATIVES  
RESEARCH AGENCY

Pouch Y, State Capitol  
Juneau, Alaska 99811  
(907) 465-3991

April 4, 1983

MEMORANDUM

TO: Representative Hugh Malone

FROM: Jack Kreinheder  
Research Staff *JK*

RE: Effect of Capital Projects on Operating Budget  
Research Request 83-59

Royce Weller of your staff requested that we provide the following information on the effect of capital projects on the State operating budget:

- a general discussion of the responsibility (local vs. State) and operating costs for different types of capital projects, such as schools, roads, and offices;
- an estimate of the increase in the operating budget over the last five years which was caused by new capital projects; and
- an index of operating costs for various types of capital projects on a unit basis, such as per square foot for buildings and per lane mile for roads.

It was not possible, within the research time available for this request, to determine the operating budget impact of all capital projects over the last five years. The section on this topic focuses on four of the State agencies most affected by the operating costs of capital projects, and on debt service for bonded projects. The budget information which was used for the analysis has several limitations which are discussed in that section. If you would like more comprehensive information on the operating costs of capital projects, we may be able to do additional research later this session or during the interim.

RESPONSIBILITY FOR OPERATING COSTS

A considerable portion of State capital spending over the last several years has been in the form of grants to municipalities. In nearly all cases, local governments are responsible for the operation and maintenance of capital projects built with State grants. Thus, from the

State's perspective, the impact of capital spending on the State's operating budget has been much smaller than would have been the case if most capital spending was for projects under State responsibility. Nearly all port and harbor facilities are also operated by municipalities, so that State spending on harbor improvements does not have a direct impact on the State operating budget.

For some types of capital projects, most notably school construction and projects in small communities, the responsibility for operating costs is not clear-cut. In the case of schools, operating and normal maintenance costs are paid, at least initially, by the local school districts and Rural Educational Attendance Areas (REAs). State education funding under the foundation program is based primarily on attendance (number of students), not on school operating costs. Therefore, when the State builds a school or provides a grant to a municipality to build a school, the district's or REA's funding is not directly increased to pay the cost of operating the school. In this sense, it is the school districts and REAs that are directly responsible for operating costs.

However, as you know, the State provides most of the operating funds for the school districts and REAs through the education foundation program. In FY 81, the State provided an average of 73 percent of total revenues for school districts and 87 percent of total revenues for REAs.<sup>1</sup> These figures make it evident that over the long run, the State indirectly pays most of the operating costs of new school facilities. State funding for school districts and REAs increased by 60 percent from \$319.2 million in FY 81 to \$509.1 million in FY 83. This increase in funding paid for growth in the number of students and teachers, new programs, and the effects of inflation, as well as the cost of operating new schools.

The situation with capital projects in small communities is similar. Although the communities may be responsible for operation and maintenance of facilities, roads, and other projects, most of their revenues are received from the State through revenue sharing, municipal assistance, and other programs. The impact of these local capital projects on the State's operating budget depends on one's perspective. Conceivably, if State revenues fell dramatically, the State could reduce assistance to municipalities and let them maintain their capital facilities as best they could. However, if these facilities are to be properly maintained, much of this money will have to come from the State.

---

<sup>1</sup> Source: Department of Education 1982 Annual Report.

### TYPES OF CAPITAL PROJECTS

It is important to consider the effect of different types of capital projects on maintenance and operations (M&O) costs. A review of the capital budgets enacted by the legislature for the past several years indicated that a large percentage of capital appropriations were improvements or replacements for existing facilities, rather than new projects. Any type of repair or maintenance item of \$25,000 or more is usually budgeted as a capital project, rather than as an operating item. Capital improvement projects can increase operating costs if a building is enlarged or a road is widened from two lanes to four, but operating costs can also decline when inefficient, high maintenance buildings and deteriorated roads are replaced or improved.

Based on my review of the FY 83 capital budget, about 17 percent of the appropriations had a possible operating budget impact. This figure does not include municipal grants, except for school construction, which are included. For FY 82, about 38 percent of the appropriations had a potential operating budget impact, indicating a larger proportion of spending for "new" projects and State-owned projects in this year.

The variability of maintenance and operating appropriations also affects the relationship between capital and operating expenditures. The various maintenance units in the Department of Transportation and Public Facilities frequently stated in their budget requests that maintenance work had previously been budgeted at a very minimal level, with most major maintenance deferred indefinitely. This type of budget approach would reduce the operating impact of capital projects in the short run, but would also decrease the useful life of most facilities. In addition, if maintenance is deferred until it becomes a major renovation, the appropriation for this renovation would then show up in the capital budget rather than the operating budget.

### OPERATING BUDGET INCREASES RESULTING FROM CAPITAL PROJECTS

#### Debt Service for Bonded Projects

Debt service on general obligation bonds issued by the State is not an operating cost in the normal sense of paying for the actual operation of a capital project. The basic difference between bonding for a capital project and appropriating cash is that bonding spreads the appropriation over a long period of time (which of course requires interest payments). However, debt service on the State's bonded indebtedness is appropriated in the operating budget; therefore, bonding capital projects increases the operating budget in subsequent years. In addition, the payment of debt service is similar to other M&O costs in that it is a long-term obligation which results from the construction of capital projects.

Historical and projected debt service payments from FY 74 to FY 84 are as follows (in millions of dollars):

FY 75	\$30.1	FY 80	\$75.1
FY 76	35.1	FY 81	97.6
FY 77	41.9	FY 82	102.4
FY 78	50.0	FY 83	141.7
FY 79	60.0	FY 84	178.7

Source: FY 84 Executive Capital Budget, p. 7

For the most recent five years from FY 79 to FY 83, debt service payments have increased by about \$82 million. During the same period, the general fund operating budget increased by \$1.04 billion, from \$888 million in FY 79 to \$1.93 billion in FY 83. The increase in debt service therefore accounts for about 8 percent of the growth in the operating budget for these fiscal years.

Debt service payments differ from other M&O costs because, in Alaska, the payments generally extend for only 10 to 15 years, rather than for the useful life of the capital project being bonded. In order to enhance and maintain the State's credit rating, the term of general obligation bonds has been tailored to the projected revenue decline beginning in the late 1980s. This shorter term means that the annual operating costs of bonded capital projects will decline in later years when the bonds are repaid and debt service payments end. However, this decline could be partially offset by increased maintenance costs for older facilities.

#### Agency Operating Costs for Capital Projects

The State agencies which have seen the largest increases in operating costs as a result of recent capital projects include:

- Department of Transportation and Public Facilities
- Division of Corrections (Department of Health and Social Services)
- Department of Fish and Game (hatchery program)
- University of Alaska

There are a number of other programs for which operating costs have increased as a result of capital projects, such as health clinics, pioneers' homes, recreational facilities, and water and sewer projects. However, compiling all the capital project operating costs for these and other programs would take considerably more research time than the eight staff days that were available for this request.

The primary method used to determine the additional operating costs for capital projects was a review of agency budget requests. When each State agency submits its budget request to the Governor's Office, it is required to justify any additions to its budget above the continuation level (which is basically the prior year's budget adjusted for inflation and other factors). In theory, any additional costs for operation, maintenance, or personnel from new capital projects should be found on these budget forms. The FY 84 budget forms now include a space for listing the specific capital project which required the additional costs; however, this information was rarely included in the budgets I reviewed.

It is important to note that this budget information includes only agency requests. Actual appropriations and expenditures may vary significantly. However, in terms of evaluating the full maintenance costs of capital projects, agency requests may be a better indicator, assuming that these requests are accurate. Lower appropriations would indicate a sub-standard level of maintenance, which for most facilities would result in either higher maintenance costs in later years or a shorter useful life.

Another consideration regarding the costs presented in this section is that they reflect only additional costs which could not be covered within the existing agency budgets. For some projects, funds in the existing operation and maintenance budget may have been "stretched" by reducing maintenance levels slightly on other facilities to cover the additional costs. Or, if M&O costs declined for any facilities, this savings may have been used to pay part of the M&O cost of new capital projects.

#### Department of Transportation and Public Facilities

DOT/PF requested a total of about \$8.5 million from FY 81 to FY 84 for the operation and maintenance of new capital projects. Table 1 on the following page lists these additional budget requests for each of the four fiscal years. To put this figure in perspective, DOT/PF's FY 83 budget for maintenance and operations is \$110.3 million.<sup>2</sup> This indicates that the DOT/PF M&O budget has increased by about 3 percent as a result of capital projects constructed during the last several years.

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<sup>2</sup> This figure excludes M&O costs for the Anchorage and Fairbanks International Airports, which are not funded through the general fund.

Most of these requests for additional M&O funds were for either rural airport improvements or for new road mileage. For example, the FY 83 budget request for the Western region noted that lighting systems, runway extensions, or navigation and communications equipment had been installed at 33 community airports. The FY 82 Interior region budget request stated that 296 lane miles of roads and highways had been added to the regions system since 1979 with only small increases in maintenance funds. A smaller amount of additional funds was requested for building maintenance and operation and for expansion of the design and support staff for capital projects<sup>3</sup>

#### Division of Corrections

Table 2 contains the amounts requested by the Division of Corrections for new or expanded facilities. These figures include all direct costs of operating and maintaining the correctional facilities, including personnel, the purchase of food and other commodities, and contractual services. The largest budget requests were for the Cook Inlet pre-trial facility (\$2.3 million), the Palmer medium security prison (\$1.5 million), and the Hiland Mountain expansion (\$1.6 million). The Division's FY 83 operating budget is \$58.7 million, up from \$27 million in FY 80.

TABLE 2

#### Division of Corrections Additional Budget Requests for Operation and Maintenance of New or Expanded Facilities

FY 84	\$3,662,000
FY 83	7,567,000
FY 82	489,000
FY 81	<u>2,360,000</u>

TOTAL \$14,178,000

#### Department of Fish and Game

The Fisheries Rehabilitation, Enhancement and Development (FRED) Division operates 20 fish hatcheries, as well as engaging in stream restoration, lake fertilization and other activities. The operation of the

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<sup>3</sup> During this period, several million dollars (not included here) was requested for capital project design, support and administration as part of the legislative mandate to convert from capital funding for these positions to funding under the operating budget.

hatcheries requires about \$6.7 million out of the Division's total \$13.5 million FY 83 operating budget.<sup>4</sup> Of the 20 hatcheries, about 11 have been built since 1978 through general obligation bonds. An approximate estimate of the cost of operating these newer hatcheries would be \$3.7 million. The average size of the newer hatcheries is larger than the older facilities, so that the actual operating cost of the newer hatcheries would be somewhat larger than \$3.7 million.

The cost of operating the hatcheries at full capacity would be larger than the figures cited above. However, because of budget constraints, the Division is operating several of the hatcheries at reduced levels. The Division has also restricted its other functions because funding for the hatcheries has not kept pace with cost increases.

#### University of Alaska

Time did not permit a complete review of the budget requests for the University of Alaska. However, it was evident from the two fiscal years which were examined that only a very small percentage of the University's budget requests were for the operation of new facilities. Nearly all of the requests were for new teaching positions or other program-oriented purposes. In addition, several of the requests for the operation and maintenance of new buildings were rejected by the Governor.

For example, \$772,000 was requested in the FY 84 budget for operating new buildings at the Anchorage and Juneau campuses, all of which was rejected. It is unlikely that the University would allow the buildings to stand empty, so that the cost of operating these buildings will probably be reallocated from other funds. In FY 82, \$517,000 was requested (and approved by the Governor) for new facilities, including the Anchorage Community College aviation complex, a Fairbanks power plant addition, and additions to several community colleges throughout the state.

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<sup>4</sup> Source: Stan Moberly, FRED Division Director, personal communication, 3/31/83.

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For example, \$772,000 was requested in the FY 84 budget for operating new buildings at the Anchorage and Juneau campuses, all of which was rejected. It is unlikely that the University would allow the buildings to stand empty, so that the cost of operating these buildings will probably be reallocated from other funds. In FY 82, \$517,000 was requested (and approved by the Governor) for new facilities, including the Anchorage Community College aviation complex, a Fairbanks power plant addition, and additions to several community colleges throughout the state.

#### MAINTENANCE AND OPERATIONS COST INDEXES

The attached tables include representative maintenance and operations costs for roads and highways, airports, and public buildings. It must be emphasized that the M&O figures, which were provided by DOT/PF, are approximate and are averages. M&O costs for specific facilities can vary considerably depending on location, design, age, level of use, and level of maintenance. It should also be noted that the costs for roads and airports are from a 1981 DOT/PF study; current costs would be about 15 percent higher as a result of inflation.

These M&O figures do not include the non-maintenance personnel costs of operating facilities, for example, teachers' salaries in schools. The staffing levels of schools and other facilities vary considerably in relation to building size, making it inaccurate to use any kind of "positions per square foot" average in determining personnel costs.

#### Roads

Attachment 1 shows maintenance costs per lane mile per year for eight different types of roads, ranging from 4-lane paved highways to gravel roads less than 20 feet wide. The maintenance costs are also classified by region: Interior, Southcentral, Southeastern, Western and Central (a map of these regions is included on the following page). These costs were compiled by DOT/PF in a 1981 study. The table demonstrates the wide range in maintenance costs both for different types of roads and in different regions. For example, the cost of maintaining 2-lane paved rural primary routes (Type IV) in the Southcentral region is shown as \$8,739 per lane mile, compared to only \$2,346 per lane mile for gravel secondary roads (Type 6) in the same region. Most of this cost difference is a result of the higher traffic volumes on the primary routes and a higher maintenance level, such as more frequent snowplowing.

The wide spread in maintenance costs in different regions is indicated by the fact that in the Interior region, maintaining a 2-lane paved

rural primary route costs \$4,432 per lane mile -- about half the cost for the same road type in the Southcentral region -- while in the Western region the cost for this road type is over \$15,000 per lane mile.

Although the large variance in road maintenance costs makes it difficult and somewhat misleading to use a single average figure, a cost of \$5,200 per lane mile is often used in DOT/PF budget requests as an indicator of operating costs.

### Airports

DOT/PF has also compiled data on the maintenance and operating costs of State-owned airports throughout the state. These costs are summarized in Attachment 2, and are classified for four types of airports and three areas of the state. The airport types, in order of declining size, are: regional center, regional, transport and community. Areas II and III are the same Interior and Western regions used for the information on road costs, while Area I combines the Central, Southcentral, and Southeastern regions. These airport maintenance costs are also for FY 81 and should be inflated by about 15 percent to reflect current costs.

As might be expected, the larger regional airports are considerably more expensive to maintain than the smaller community airports. The average maintenance cost for the regional center airports at the time of the study was about \$371,000 per year. Community airports averaged only \$14,360 in average maintenance costs. One cost difference which appears unusual at first glance is the much lower cost shown for maintenance of community airports in Area III (the Western region) compared to the rest of the state. One might expect the cost of maintenance to be higher in the Western region because of its remoteness and rugged climate. The most likely reasons for the lower cost shown for the Western region are simply that the airports in many of these communities are very basic, frequently without lighting or communications, and receive very limited maintenance.

It should be noted that an extensive rural airport improvement program has been undertaken over the past several years, and as a result, current maintenance costs are probably somewhat higher (even after adjusting for inflation) than those shown in Attachment 2. Although some airport improvements, such as runway resurfacing, can reduce maintenance costs, other improvements like runway lighting, communications and navigational aids require extensive maintenance to remain operative.

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### Public Buildings

According to Greg Brown, Acting Statewide Planning Manager for NNT/PF, the annual maintenance and operating cost of a new office building or school in Anchorage or Juneau would probably fall in the range of \$6.50-\$7.75 per square foot of building space. This cost figure is for an optimum level of maintenance and includes all annual costs such as utilities, insurance, and janitorial service, in addition to periodic repairs to the roof, heating system, and other components.

This cost range was obtained from historical NNT/PF and local government information. Mr. Brown noted that it is difficult to arrive at an average maintenance cost, even for similar buildings, because different agencies include different items as M&O costs, and because different levels of maintenance are used. He emphasized that this cost figure should be used only as a general indicator of potential maintenance and operating impacts, and should not be used for specific projects or in preparing agency budgets.

As noted earlier, M&O costs can vary considerably, even for the same location, depending on type of facility, design, and less-than-optimum maintenance levels. For example, a corrections facility would be much more expensive to maintain than an office facility, because of its full-time occupancy and security requirements. On the other hand, a maintenance shop or storage facility would have lower M&O costs. An older facility will usually have a higher M&O cost per square foot than a new building. Also, it is important to recognize the effect of inflation on future M&O costs. With 10 percent inflation, the total M&O costs over the 30 year life of a building can be over 12 times the original construction cost of the structure.

\* \* \* \* \*

I hope that this information is useful, and regret that we were not able to provide a more comprehensive response under the time constraints of our current workload. Should you have any questions or need additional research, please do not hesitate to contact us.

JK/sj

Attachments

## ATTACHMENT 1

Source: DOT/PF

SUMMARY OF AVERAGE TOTAL MAINTENANCE COST/LANE MILE/YEAR  
Including Overhead Costs

Type	Miles	INTERIOR			SOUTHCENTRAL			SOUTHEASTERN			WESTERN			CENTRAL		
		Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total	Maint. Cost	Over-Head (31%)	Total
1	48	18,916	5,870	24,806	0	0	0	7,760	2,406	10,166	0	0	0	2,928	908	3,836
11	46	4,775	1,480	6,255	0	0	0	4,663	1,446	6,109	0	0	0	2,752	853	3,605
111	26	9,101	2,908	12,289	0	0	0	5,978	1,853	7,831	0	0	0	4,771	1,479	6,250
12	24	3,383	1,049	4,432	6,671	2,068	8,739	3,638	1,128	4,766	11,764	3,647	15,411	3,198	991	4,189
2	24	2,955	916	3,871	5,683	1,762	7,445	4,624	1,433	6,057	1,592	494	2,086	2,890	896	3,786
31	32	2,233	692	2,925	1,791	555	2,346	4,344	1,347	5,691	2,074	643	2,717	2,887	895	3,782
411	16	3,626	938	3,964	3,101	961	4,062	6,125	1,899	8,024	2,811	871	3,682	3,216	997	4,213
5111	26	1,895	587	2,482	2,291	682	2,883	6,494	2,013	8,507	879	272	1,151	2,611	809	3,420

It has been noted that the \$24,806 cost/lane mile shown for Type 1 roadways located in the Interior Maintenance Region, also described as Area 11, can be attributed to the high maintenance costs associated with chain link fencing which existed as a traffic separator on portions of Route 170000 (Parks Highway), during the time period associated with costs shown in this report. The chain link fencing has been replaced with concrete traffic separators which should contribute to reduced future maintenance costs.

## ATTACHMENT 2 -- AIRPORTS

## TOTAL AVERAGE MAINTENANCE COSTS AND OVERHEAD COSTS

		AREA I <sup>1</sup>	AREA II <sup>2</sup>	AREA III <sup>3</sup>
Regional Center	Maintenance	\$301,608	\$275,795	\$313,092
	Overhead	<u>68,767</u>	<u>37,744</u>	<u>66,052</u>
	Total	\$370,375	\$364,539	\$379,154
Regional	Maintenance	203,384	110,646	153,312
	Overhead	<u>46,372</u>	<u>35,075</u>	<u>32,235</u>
	Total	\$249,756	\$145,721	\$185,547
Transport	Maintenance	60,364	--	22,293
	Overhead	<u>13,763</u>	<u>--</u>	<u>4,704</u>
	Total	\$ 74,127	--	\$ 26,997
Community	Maintenance	11,403	17,065	6,452
	Overhead	<u>2,600</u>	<u>5,410</u>	<u>1,150</u>
	Total	\$ 14,003	\$ 22,475	\$ 7,602

1. Overhead calculated at 22.3% of maintenance.
2. Overhead calculated at 31.7% of maintenance.
3. Overhead calculated at 21.1% of maintenance.

Source: DOT/PF

ALASKA LEGISLATIVE PROCEDURES STUDY

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FINAL REPORT

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Prepared by the

**NATIONAL CONFERENCE OF STATE LEGISLATURES**

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**May 15, 1983**