

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10564 SENATE HEALTH EDUCATION & SOCIAL SERVICES

Lutheran Brotherhood .....	800-990-6290
(This company only sells to the specific group members.)	
Metropolitan Life Insurance Company (METLIFE) .....	800-308-0179
Monumental Life Insurance Company .....	800-821-9580
Mutual of Omaha Insurance Company .....	800-775-6000
Mutual Protective Insurance Company .....	800-228-6080
New York Life Insurance & Annuity Corporation .....	800-624-2570
(This company offers long-term care benefits only through annuity contracts.)	
New York Life Insurance Company .....	800-224-4582
Northwestern Long Term Care Insurance Company .....	907-272-3591
Peoples Benefit Life Insurance Company .....	800-698-7851
PFL Life Insurance Company .....	800-338-0257
Physicians Mutual Insurance Company .....	800-228-9100
Pioneer Life Insurance Company .....	800-759-7007
Protective Life Insurance Company .....	800-866-9933
(This company offers long-term care benefits only through life insurance policies.)	
Prudential Insurance Company of America .....	800-732-0416
Security Financial Life Insurance Company .....	800-284-8575
(This company offers long-term care benefits only through life insurance policies.)	
Teachers Insurance & Annuity Association (TIAA) .....	800-223-1200
(This company only sells to the specific group members.)	
Transamerica Occidental Life Insurance Company .....	800-690-2758
Travelers Insurance Company .....	800-334-4298
Unum Life Insurance Company of America .....	800-672-1600

### Additional Companies that Sell LTC Insurance in Alaska

Provided by Gary Wilken

# Tax Laws and Long-Term Care Insurance

In 1996, the Health Insurance Portability and Accountability Act (HIPAA) was signed into law. Besides improving the continuity of group health insurance for individuals moving from one employer to another, HIPAA addresses certain tax breaks for Long-Term Care (LTC) insurance premiums and benefits. Before HIPAA, it was uncertain whether LTC insurance would be treated as health insurance for purposes of tax laws already on the books—such as Internal Revenue Code (IRC) Sections 104, 105, 106, and 262. Generally, these provisions allow employers to deduct premiums paid for health and disability insurance and employees to exclude these employer-provided benefits from their taxable incomes. HIPAA added IRC Section 7702B which provides that qualified LTC insurance contracts will be treated, for tax purposes, as accident and health insurance, subject to certain additional rules and limits.

## What defines a Qualified Long-Term Care Policy?

In order to be tax-qualified, the LTC policy must contain certain required provisions.<sup>1</sup> Many of these provisions pertain to the manner in which benefits are triggered. If the policy contains all of the required language, it can generally be considered a Qualified Long-Term Care (QLTC) insurance contract for tax purposes.

Following are a few of the most important new provisions a LTC policy must comply with in order to qualify for tax-favored treatment.<sup>2</sup>

- The policy must be guaranteed renewable.
- In order for benefits to be paid there must be the expectation that the disability will be long-term.
- The individual must be certified by a licensed health care practitioner within the last 12 months as "chronically ill."
- The certification must be based on one or both of the following events. First is the inability to perform, without human help, at least

Daily Living (ADLs) for at least 90 days. The ADLs are eating, toileting, transferring, bathing, dressing, and continence. The policy must use at least five of these to measure ADL dependency. Second is the need for substantial supervision due to severe cognitive impairment in order to protect the individual from threats to health and safety.

- Non-forfeiture benefits and benefit increase options (inflation protection) must be offered to the insured, but are **not** required as part of the policy.
- Benefits under a QLTC policy cannot duplicate Medicare benefits.

## How the Laws Work

### Tax treatment for businesses

If an employer contributes to the premium cost of QLTC insurance for eligible employees and dependents pursuant to a plan, the contributions will generally be excludable from the employee's income<sup>3</sup> and generally deductible for the business.<sup>4</sup>

**Corporations:** The officers and owners of a C corporation may be employees, and therefore the corporation's contributions to the premium cost of QLTC policies for its employee-officers may be deductible by the corporation and not taxable to the employees if the contributions are made pursuant to an employee benefit plan. If the QLTC plan is insured, it need not conform to any non-discrimination rules and may be available only to a select group of employees.<sup>5</sup> But, the corporation must be able to show, if challenged by the IRS, that the plan covers owner-employees as employees and not as owners.<sup>6</sup> QLTC coverage may not be included in a Section 125<sup>7</sup> plan or a flexible spending account.<sup>8</sup> This means that the employer may not use salary reduction dollars to pay its premium contribution and the employee's premium contribution, if any, must be paid with after-tax dollars. The QLTC plan may be offered to retired employees, eligible dependents of employees and retirees, including dependent parents, and surviving eligible dependents after an employee's death.<sup>9</sup>

**Pass-through entities:** The owners of businesses that are organized as sole-proprietorships, partnerships, or Sub-S corporations do not qualify for the same tax treatment for QLTC policies. Instead, limited deductions are available for these individuals under IRC Section 162(l). For the tax years 1999-2001, the percentage of premium paid for health insurance—including eligible Long-Term Care premiums—that can be deducted is 60%. The percentage amount increases incrementally for later tax years. While owners of pass-through entities are limited in the amount of QLTC premiums they may deduct for themselves as described in this paragraph, these entities may establish QLTC plans and deduct for their employees the full amount of premiums as described previously under "Corporations."<sup>10</sup> An owner (or "owner/employee") is defined as an individual who owns 2% or more of the business.<sup>11</sup>

### Tax treatment for individuals who itemize

Taxpayers who itemize may, beginning with tax year 1997, deduct the cost of eligible LTC premiums as a medical expense on what we know of as Schedule A. Note: there is an age-based limit on the amount of premiums for purposes of this deduction, which may be less than the actual policy cost.<sup>12</sup> For 2001, at age 40 and under, it's \$230 in premium; from ages 41-50, it's \$430; for ages 51-60, it's \$860; for ages 61-70, it's \$2,290; and for those older than 70, the allowable premium is \$2,860. The deductibility of premiums by self-employed individuals discussed above is also limited to eligible LTC premiums.<sup>13</sup> The eligible long-term care premium limits are adjusted annually for inflation. When allowable medical expenses listed on Schedule A, including eligible LTC premiums, exceed 7.5% of the taxpayer's adjusted gross income, the excess over 7.5% is deductible.

Individuals who have other large medical expenses and a low adjusted gross income (AGI) may find that the premiums they pay for a QLTC policy result in some tax savings under the foregoing provisions.

1 26 IRC Section 7702B(b)  
2 26 IRC Section 7702B(b)  
3 26 IRC Section 105(a)  
4 26 IRC Section 162(a)  
5 26 IRC Section 106  
6 *Larkin v. C.I.R.*, 394 F.2d 494 (C.A.1, 1968)

7 26 IRC Section 125(l)  
8 26 IRC Section 106(c)  
9 26 IRC Section 105(b), 152(a)  
10 26 IRC Section 106(a), 162(a)  
11 26 IRC Section 1372  
12 26 IRC Section 213(e)(10)  
13 26 IRC Section 162(l)(1)(C)

**GARY WILKEN**

SENATOR  
West Fairbanks

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Alaska State Legislature

Senate

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**MEMORANDUM**

TO: Senator Lyda Green, Chairman  
Senate HESS Committee

FROM: Senator Gary Wilken

DATE: April 23, 2001

RE: Senate Joint Resolution 28  
Long-Term Care Insurance

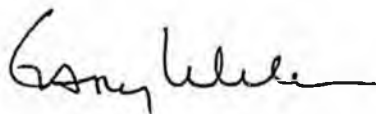
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I respectfully request that Senate Joint Resolution 28 "Long-Term Care Insurance" be scheduled for a hearing before the Senate HESS Committee.

Senate Joint Resolution 28 directs appropriate state and federal agencies to inform the public about the high cost of long-term care services and the need for families to plan, in advance, for their long-term care needs.

Alaska's high cost of providing long-term care and our rapidly growing senior population accentuates the necessity of educating Alaskans on the availability of private, long-term care insurance and the importance of planning for their health care needs in the future.

Thank you for your assistance in this request.



**GARY WILKEN**

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## Sponsor Statement

### SJR 28: Long-Term Care Insurance

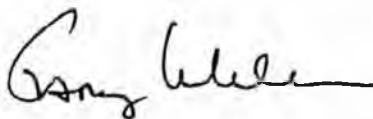
Senate Joint Resolution 28 directs appropriate state and federal agencies to inform the public about the high cost of long-term care services and the need for families to plan, in advance, for their long-term care needs.

The fastest growing population group in Alaska is people who are 65 years or older. The senior community is growing about 5 percent annually while the rest of population is increasing but a slight 2 percent. This growth rate could almost triple to 12 percent by the year 2018. In less than 20 years, seniors will comprise a significant proportion of Alaska's total population.

These rapid growth rates are coupled with the high cost of providing long-term care in Alaska. At an average of over \$210 per day, Alaska's nursing home costs rank Number 1 nationwide; twice the national average cost of \$92 per day. This incredible expense can have a disastrous effect on families, wiping out a lifetime of savings before the elder becomes eligible for Medicaid.

Widespread use of private, long-term care insurance has the potential to protect families from the catastrophic costs of long-term care services while, at the same time, reduce the burden on Medicaid as Alaska ages. But most Americans, 76 percent, do not believe they will ever need long-term care and, therefore, do not explore the option of obtaining private, long-term care insurance.

Senate Joint Resolution 28 directs the beginning of an educational campaign to inform Alaskans about the realities of aging and how individuals can protect themselves for the future.



**SJR 28 LONG TERM CARE INSURANCE**  
**By Senator Gary Wilken**

*CS ordered  
4/26*

**ANALYSIS**

Long-term care insurance is available, but a lot of people do not know about it. This resolution requests that the state and federal agencies inform the public of long-term care options.

There are several reasons for this:

- ❖ We have an aging population;
- ❖ Nursing home care is very expensive;
- ❖ Medicaid covers long-term care only after the person's assets have been exhausted;

This resolution also requests that Congress determine to what extent tax rules may still discriminate against the buyers of long-term care insurance policies and look for ways to remove such barriers and implement incentives.

**Suggestion: Perhaps this should be sent to the Commission on Aging.**

*Tommy Thompson <sup>U.S.</sup> H&HS*

**HB**

**43**

**CS for HB 43 (FIN) am Student Loan Forgiveness  
By Representative Green**

**SECTIONAL ANALYSIS**

Sec.	Statute	Existing	Changes
1	<p>14.43.142 Education, Libraries, and Museums Scholarship, Loan, and Grant Programs for Postsecondary Students Scholarship Loan Program Loan forgiveness of loans made to borrowers employed as public school teachers</p>	None. New section added.	<p>The state will forgive a loan for someone who has received a teaching degree or equivalent credit hours with at least 60 credit hours and is employed as a teacher in a geographically underserved area or teaches a subject for which there is a shortage of teachers, as determined by the state board. They must comply with the conditions of the loan and are only eligible for this forgiveness. The loan will be forgiven 15% for the first year, 17.5% for the second year, 20% for the third year, 22.5% for the fourth year, and 25% for the fifth year, for a total of 100% forgiveness, subject to appropriation, and may not be more than the amount owed. Payment obligations will be suspended while the loan is being forgiven. Bond proceeds may not be used to pay for the forgiveness.</p>
2	<p>uncodified law APPLICABILITY</p>	None.	<p>This Act applies to loans entered into on or after and employment occurring on or after July 1, 2001.</p>
3	<p>effective date</p>		<p>July 1, 2001</p>

# FISCAL NOTE

**STATE OF ALASKA  
2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 43(EDU)  
 (H) Publish Date: 2/16/01

Revision Date/Time (Note if correction): 2/14/01 4:20 PM Dept. Affected: Educational  
 Title: An Act relating to forgiveness of certain loans; and BRU: ACPE  
providing for an effective date. Component: Student Loan Operations  
 Sponsor: Rep. Green  
 Requester: (H) HESS Component Number: 213

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous		85.0	170.0	254.9	339.9	424.9
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>85.0</b>	<b>170.0</b>	<b>254.9</b>	<b>339.9</b>	<b>424.9</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		85.0	170.0	254.9	339.9	424.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>85.0</b>	<b>170.0</b>	<b>254.9</b>	<b>339.9</b>	<b>424.9</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation prospectively changes the terms and conditions of loans issued under the Alaska Student Loan Program to allow for a reimbursement of loan principal and interest for a borrower, under certain conditions.

Alaska Student Loans are made available through the sale of bonds issued and subject to the terms of a Trust Indenture. Bond covenants would prevent use of corporation cash to fund the reimbursement proposed.

Operationally, a data management process would need to be developed and staff designated to track the employment status of borrowers remaining or returning to Alaska.

To estimate the cost of this legislation, loan originations are assumed to be \$50,000,000 each year beginning with the 2001-2002 academic year. A percentage of eligible borrowers was estimated based on the number of Alaska teachers currently in repayment of an Alaska Student Loan. The costs shown assume 50% of eligible borrowers would teach in qualifying positions. Because this legislation, as amended, focuses the benefits of the forgiveness program on individuals who teach in designated shortage areas (either geographically or educational specialization), cost estimates must be considered very speculative.

Prepared by: Sheila King, Finance Officer Phone 465-6757  
 Division: Finance Date/Time 2/14/01 4:20 PM  
 Approved by: Diane Barrans, Executive Officer *Diane Barrans* Date 2/14/2001  
 Agency: Alaska Commission on Postsecondary Education

For distribution information, call the Governor's Legislative Office

HB

51

# FISCAL NOTE

**STATE OF ALASKA  
2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 51  
 (H) Publish Date: 1/10/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Administration  
 Title: An Act related to entry into and financing of a BRU: Leases  
lease purchase for a seafood/food safety lab. Component: Leases  
 Sponsor: Rules  
 Requester: Governor Component Number: 81

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual	0.0	0.0	0.0	(54.9)	(113.7)	(117.7)
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(54.9)</b>	<b>(113.7)</b>	<b>(117.7)</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**FUND SOURCE (Thousands of Dollars)**

FUND SOURCE	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	(54.9)	(113.7)	(117.7)
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(54.9)</b>	<b>(113.7)</b>	<b>(117.7)</b>

Estimate of any current year (FY2001) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

The bill would authorize financing and construction of a new laboratory facility that would replace the current leased location in Palmer. The Division will execute a lease purchase agreement for the lease purchase of a new seafood and food safety laboratory in Anchorage.

Lease savings would begin mid way through (January) FY2005 when we anticipate occupying the new facility. The specific lease and current costs are shown on the attached page. Annual costs for the Palmer lease in FY2001 are budgeted in the Department of Administration's (DOA) Leases component as \$98.0 of General Funds and in the Department of Environmental Conservation's operating budget and paid to DOA via a \$17.7 RSA. Future years estimated lease savings have been adjusted to reflect the January occupancy date and probable Consumer Price Index adjustments.

Costs for the design, construction, acquisition and construction contract compliance are not included in this fiscal note as those costs and associated work will be borne by other state departments.

Prepared by: Chris Parce, Director Phone (907)465-2250  
 Division: Division of General Services Date/Time 12/13/00 1pm  
 Approved by: Commissioner Jim Duncan Date 12/13/00  
 Agency: Department of Administration

For distribution information, call the Governor's Legislative Office

ANALYSIS: (continued)

Fiscal Note  
 State of Alaska  
 2001 Legislative Session

Current Palmer Laboratory Lease

Lease #	Location	Property	Sq Ft	FY2001 Cost per Year (Annual)	Annual RSA Amount	Net FY2001 DOA Budget (Annual)	*Estimated FY2005 DOA Reduction (1/2 year)	*Estimated FY2006 DOA Reduction (Annual)	*Estimated FY2007 DOA Reduction (Annual)
2359	Palmer	Palmer Lab	9,252	115,710	17,697	98,013	54,924	113,692	117,671

\*Adjusted annually by the probable Consumer Price Index.

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: HB 51  
 (H) Publish Date: 1/10/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Environmental Conservatio  
 Title: Seafood/Food Safety Lab Facility Construction BRU: Environmental Health  
 Component: Laboratory Services  
 Sponsor: Rules Committee  
 Requester: Governor Component Number: 2065

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual				97.8	178.1	184.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>97.8</b>	<b>178.1</b>	<b>184.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1002 Federal Receipts						
1003 GF Match						
1004 GF				97.8	178.1	184.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>97.8</b>	<b>178.1</b>	<b>184.0</b>

Estimate of any current year (FY2001) cost: 0.0

**POSITIONS**

POSITIONS	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Full-time						
Part-time						
Temporary						

**ANALYSIS:** *(Attach a separate page if necessary)*  
 The current Food Safety Laboratory has operated in a leased facility in Palmer for over 30 years. The facility is now inadequate for current lab operations. In addition the lease will soon expire with no opportunity for long term renewal. The bill would authorize financing and construction of a new Seafood and Food Safety Laboratory to be operated by the Department of Environmental Conservation (DEC).  
  
 The Department of Administration (DOA) pays the current lease costs for the lab. DEC reimburses DOA for a portion of these costs through an RSA. DEC will directly pay for all of the utilities and maintenance costs for the new building. These new costs are shown in the contractual line. Annual lease savings partially offset these new utility and maintenance costs as shown on the attached chart.  
  
 We expect to begin occupying the building in January 2005, therefore the costs shown for 2005 are for half a year.

Prepared by: Janice Adair, Director Phone (907) 269-7644  
 Division: Division of Environmental Health Date/Time 12/13/00 3:00PM  
 Approved by: Kurt Fredriksson Date 12/13/00  
 Agency: Department of Environmental Conservation

For distribution information, call the Governor's Legislative Office

**FISCAL NOTE**  
**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Line Item Description	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
<b>Contractual Line 300</b>					
<b>* (Operating Expenses)</b>					
<b>Utilities (estimated)</b> DEC will incur costs for utilities at the new facility starting mid - 2005. Utility costs at the existing leased facility are included in the lease paid by DOA and DEC. These costs are offset by the lease savings shown below and shown on DOA's fiscal note.			\$52,965	\$105,930	\$110,040
<b>Building Maintenance (estimated)</b> DEC will incur costs for building maintenance at the new facility starting mid - 2005. Maintenance costs at the existing leased facility are also included in the lease paid by DOA and DEC. These costs are offset by the lease savings shown below and shown on DOA's fiscal note.			\$54,800	\$92,700	\$95,160
<b>* (Lease Savings - Palmer Lab)</b> DEC portion of current lease paid to DOA/GS through a RSA, will no longer be required after completion of the new facility.			(\$9,916)	(\$20,527)	(\$21,245)
<b>Total Contractual:</b>	\$0	\$0	\$97,849	\$178,103	\$183,955

\* Adjusted annually by the probable Consumer Price Index.

# FISCAL NOTE

STATE OF ALASKA  
2001 LEGISLATIVE SESSION

Fiscal Note Number: 3  
Bill Version: HB 51  
(H) Publish Date: 1/10/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title: Bonding: Food Safety Lab Facility Construction BRU: Revenue Operations  
Sponsor: Rules Committee Component: Treasury  
Requester: Governor Component Number: 121

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel	10.0					
Contractual	8.0	7.0	7.0	7.0	7.0	7.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service	0.0	1,224.0	1,223.0	1,220.0	1,221.0	1,225.0
<b>TOTAL OPERATING</b>	<b>18.0</b>	<b>1,231.0</b>	<b>1,230.0</b>	<b>1,227.0</b>	<b>1,228.0</b>	<b>1,232.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	18.0	1,231.0	1,230.0	1,227.0	1,228.0	1,232.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>18.0</b>	<b>1,231.0</b>	<b>1,230.0</b>	<b>1,227.0</b>	<b>1,228.0</b>	<b>1,232.0</b>

Estimate of any current year (FY2001) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Authorizes the issuance of \$13,655,000 in Certificates of Participation for the construction of a seafood and food safety laboratory to be operated by the Department of Environmental Conservation.

Assuming an interest cost of 6.12% (approximately 0.75% above current rates), and a 20-year term, the annual debt service payment would be approximately \$1.22 million beginning in fiscal year 2003 with a total repayment of approximately \$24.4 million.

It is possible that the State Bond Committee might prefer to shorten the term on these bonds by two to five years to maintain a higher credit rating on the bonds. In this event, the required annual payments could increase by as much as \$200,000 per year but total repayment would be reduced by as much as \$3.1 million.

Prepared by: Deven Mitchell, Debt Manager Phone 465-3750  
Division: Treasury Division Date/Time Dec. 7, 2000  
Approved by: Larry Persily, Deputy Commissioner Date Dec. 8, 2000  
Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: 4  
 Bill Version: CSHB 51(FIN)  
 (H) Publish Date: 4/28/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: Seafood / Food Safety Lab BRU: Revenue Operations  
 Component: Treasury  
 Sponsor: Rules Committee  
 Requester: House Finance Committee Component Number: 121

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include in \_\_\_\_\_ unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel	10.0					
Contractual	8.0	7.0	7.0	7.0	7.0	7.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		1,009.4	1,007.6	1,010.7	1,012.4	1,007.8
<b>TOTAL OPERATING</b>	<b>18.0</b>	<b>1,016.4</b>	<b>1,014.6</b>	<b>1,017.7</b>	<b>1,019.4</b>	<b>1,014.8</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	18.0	1,016.4	1,014.6	1,017.7	1,019.4	1,014.8
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>18.0</b>	<b>1,016.4</b>	<b>1,014.6</b>	<b>1,017.7</b>	<b>1,019.4</b>	<b>1,014.8</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation authorizes the issuance of \$11,600,000 in Certificates of Participation, plus the use of \$878,000 in investment earnings on the bond proceeds during construction and \$310,000 in state General Fund dollars to pay for the construction of a seafood and food safety laboratory.

Investment earnings projections on this project are based on cash flows provided by the Department of Transportation and Public Facilities and require a rate of return of 4.1% to realize sufficient earnings for full project funding. Although the assumptions that have been used are conservative, to the extent funds are spent more quickly than anticipated or the investment return is less than 4.1% the project may require additional funding for completion.

Assuming an interest cost of 5.83% (approximately 0.50% above current rates), and a 20-year term, the annual debt service payments will be approximately \$1.0 million beginning in fiscal year 2003 with a total repayment of just under \$20.2 million.

Prepared by: Deven Mitchell, State Debt Manager Phone 465-3750  
 Division: Treasury Division Date/Time April 27, 2001, 5 p.m.  
 Approved by: Larry Persily, Deputy Commissioner Date 04/27/2001  
 Agency: Department of Revenue

For distribution information, call the Governor's Legislative Office



**SENATE COMMITTEE REPORT**

DATE: 5/1/01

FURTHER: Finance

DATE TURNED IN TO OFFICE: 05/05/01

Health, Education and Social Services Committee considered CS FOR HOUSE BILL NO. 51(FIN)

*LEGISLATIVE APPROVAL OF SEAFOOD/FOOD SAFETY LAB*

"An Act giving notice of and approving the entry into and the issuance of certificates of participation for a lease-purchase agreement for a seafood and food safety laboratory facility; relating to the use of certain investment income for certain construction costs; and providing for an effective date."

and recommends:

be replaced with \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)

adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)

attached amendment(s)

adopt Letter of Intent by \_\_\_\_\_ Committee

further referral to \_\_\_\_\_ Committee

**Senate Bill:**

same title

new title

**House Bill:**

same title

technical title

new: SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Zero	FN#
DoA	1/10/01	x		1
DEC	1/10/01	x		2
Revenue	4/28/01	x		4

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Alan D. Roman</i>	✓			
<i>Betty Davis</i>	✓			
<i>Gary Kelle</i>			✓	
<i>Jim Walsh</i>			✓	
CHAIR: <i>Lyle Green</i>			✓	

# STATE OF ALASKA

TONY KNOWLES, GOVERNOR

## DEPT. OF ENVIRONMENTAL CONSERVATION

**DIVISION OF ENVIRONMENTAL HEALTH  
DIRECTOR'S OFFICE  
555 CORDOVA STREET  
ANCHORAGE, ALASKA 99501  
<http://www.state.ak.us/dec/deh>**

**Telephone: (907) 269-7644  
Fax: (907) 269-7654  
e-mail: [Janice\\_Adair@envircon.state.ak.us](mailto:Janice_Adair@envircon.state.ak.us)**

May 1, 2001

The Honorable Lyda Green  
Chairman, Senate Health, Education and Social Services Committee  
Room 125, Capitol Building  
Juneau, AK 99801

Re: CSHB 51 (FIN), Seafood and Food Safety Laboratory

Dear Senator Green:

I respectfully urge you to hold a hearing on CSHB 51 (FIN) which has been referred to your committee.

Adequate laboratory capacity is critically important to our seafood industry. Certain tests are required in order to sell some seafood products, and whether required or requested by the processor, the test results must be viewed as valid. The current laboratory is so overcrowded and inefficient that the validity of the test results may become questionable. Also critically important to the state and our laboratory employees is a safe work environment, particularly considering laboratory staff routinely deal with harmful pathogens. The enclosed taped tour of the current lab facility will give you an idea of just how crowded it is, and of course, we'd welcome a personal visit from you as well.

We have taken great care to ensure this proposal has the minimum impact on the Palmer area by limiting the project only to the laboratory functions, 80% of which are seafood-related. All other DEC functions and employees currently in the Mat-Su Valley will remain there. This includes the State Veterinarian, the Dairy Sanitarian, two food inspectors, the four pesticide program staff, all of whom are in Palmer, as well as four Drinking Water and Waste Water staff and one member of the Division of Statewide Public Services who are located in Wasilla.

I have been asked several times about our "ag" functions. We do not do any testing on crops; those tests are performed by DNR at the Plant Materials Center. The lab does do some testing of dairy products if the products are intended for human consumption. While these tests are required by the federal government and are as important to the dairy industry as seafood tests are to the seafood industry, the number of dairy samples run each month is extremely small and are not time sensitive as are many of the seafood samples.

I understand there has been some question as to whether or not we really have to move when our lease expires on December 31, 2003. I have enclosed a memo I received from Vern Jones the Chief Procurement Officer that answers that question. The size and cost of the facility has also been questioned. We had the work of Livingston Slone, who has been our contractor for this project,

*Safe Food, Safe Water, Healthy Communities*

The Honorable Lyda Green  
May 1, 2001  
Page 2

independently reviewed by a Washington-state based consultant who managed the FDA laboratory for 19 years. His conclusion was that the laboratory is appropriately sized. A copy of that report is enclosed as well as some information on laboratory cost factors so you can see some of the reasons laboratories are larger and more expensive on a per-employee basis than an office building.

The House Finance Committee held three hearings on HB 51 and conducted an extensive review of the project. CSHB 51(FIN) reduces the overall project and changes the financing structure for the laboratory. The total cost of the project is now \$12,788,000, a \$1,166,690 reduction. The \$12,788,000 includes revenue from the sale of certificates of participation in the amount of \$11,600,000, interest income estimated at \$878,000 and a general fund appropriation for non-bondable costs of \$310,000. Except for two deferred items noted below, this project cost includes the total cost of facility – the design, site preparation, construction of the building itself, most of the equipment, bringing the utilities to the building, all the necessary permits and approvals, etc.

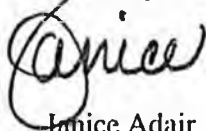
In addition to using the interest income to offset the amount of bonds that need to be sold, the reduction in the project costs includes the following:

◆ Defer equipment purchases until closer to building completion	\$ 375,000
◆ Defer "Biosafety Level 3" status of microbiology lab	\$ 280,000
◆ Reduce administrative/office space by 840 sq. ft.	\$ 200,000
◆ Reduce shipping and receiving area by 144 sq. ft.	\$ 115,000
◆ Reduce other space, 490 sq. ft. total	\$ 196,690
◆ Total actual reductions or deferrals	\$1,166,690

These reductions, along with the current favorable interest rates, have brought the estimated annual amount of rent under the lease-purchase agreement down to \$1 million from \$1,220,000 and reduced the total lease payments for the full 20 year repayment term by more than \$4 million, down to \$20,400,000. Northern Economics estimated that leasing a similar facility from a private developer would exceed \$38,000,000 over the same 20-year period – nearly double the cost of the proposal before you.

Thank you for your consideration of this request. If you or your staff have any questions, please give me a call.

Sincerely,



Janice Adair  
Director

Enclosures

- ◆ Taped Tour
- ◆ Memo from Vern Jones dated April 18, 2001
- ◆ Wiskerchen report dated April 19, 2001
- ◆ Laboratory Cost Factors
- ◆ Frequently Asked Questions
- ◆ CSHB 51 (FIN) Bullets dated April 27, 2001

**MEMORANDUM**

*Department of Administration  
Division of General Services  
vern\_jones@admin.state.ak.us*

**STATE OF ALASKA**

Phone Number: 465-2250  
FAX Number: 465-2189  
TDD Number: 465-2205

**TO:** Janice Adair  
Director  
Division of Environmental Health  
Department of Environmental  
Conservation

**DATE:** April 18, 2001

**FROM:** Vern Jones  
Chief Procurement Officer

**SUBJECT:** Palmer Seafood Safety Lab  
Lease #2359

This is in response to your inquiry regarding the Seafood Safety Lab in Palmer. Lease #2359 with Astro Enterprises has a current expiration date of December 31, 2001. The State has options to extend the lease for two more years. If both of those options are exercised, the lab could occupy this building through December 31, 2003\*. After that date, your agency would have no legal authority to remain in this facility.

The only way in which the lab could remain in the facility past December 31, 2003 is if an emergency procurement is authorized per AS 36.30.310. Such authorization would be valid only for the time necessary to secure replacement lab space through a competitive sealed bidding or competitive sealed proposals process per our procurement code. Such an extension would be subject to the lessor's approval and negotiation of lease terms and conditions. Your agency has an obligation to prevent non-competitive procurements whenever possible. I urge you to take the steps necessary to avoid an emergency procurement for this lab.

\* Upon verifying the expiration date in our lease file, I realized that this is different than the date that we discussed on previous occasions. I apologize if my office provided incorrect information or contributed to a miscommunication regarding this lease.

## Review of the Proposed Seafood and Food Safety Lab Design

### Introduction

The Department of Environmental Conservation contracted with me to review the programming/concept design prepared by Livingston/Stone (2/22/01) for the Seafood and Food Safety Laboratory. In the review, I looked at the design to determine if it meets the needs of the laboratory as well as space allocation. My background includes 19 years as Laboratory Director of the U.S. Food and Drug Administration Laboratory in Bothell, WA. I retired Jan 1, 2000. As Laboratory Director, I was involved in the design and construction of the FDA Lab in Bothell and am currently a consultant to FDA in the design and construction of a FDA Regional Laboratory in Irvine, CA. In addition, I consult with the pharmaceutical industry on meeting FDA requirements including facility design.

### Review Findings

My overall impression of the design concept of the laboratory is that it has captured the flexibility and adaptability needed to meet the current diversity of work as well as the program changes of the future. The modular layout will permit the flexibility that is needed to handle minor changes in program needs. A modular addition can be attached to the main corridor, if a major expansion is needed, for new programs. Additional utilities can be added to the existing systems. This design should meet the Laboratory's needs for many years.

In reviewing the proposed program/concept design of the DEC Seafood and Food Safety Lab several important concepts are presented that effect the size of the laboratory. The variety of work done by the Lab along with the dedicated space required to do the analyses accurately and precisely has a dramatic effect on increasing the size of the laboratory. The laboratory has a number of small programs that require less than 1 FTE but because of the uniqueness of the testing required the space must be dedicated. Some examples of specific space requirements are chemical preparation, media preparation, marine toxins, animal microbiology, seafood and food microbiology, drinking water, and wet chemistry. The dedicated space is required to avoid cross contamination that could result in false positives or false negatives in microbiological analyses or inaccurate results in chemical analyses. For example, food microbiology and animal microbiology should not be done in the same laboratory. Chemical determinations should not be done in a microbiology laboratory or vice versa. Despite a small staff, the programs covered by the DEC lab are extensive as illustrated by the following list:

- ❖ Certify in-state laboratories for microbiological analysis of drinking water. (EPA Certified)
- ❖ Conduct product and growing water sampling required by the National Shellfish Sanitation Program (NSSP) to ensure that bivalve shellfish can be marketed. (FDA Certified)

- ❖ Routinely test commercial bivalve shellfish for marine toxins including paralytic shellfish poison (FDA certified) and domoic acid.
- ❖ Analyze finished seafood and general food products for pathogenic bacterial contamination.
- ❖ Analyze fish for five toxic metals – mercury, chromium, cadmium, arsenic and methyl mercury as per the EPA fish advisory program.
- ❖ Evaluate and randomly sample finfish for chemical and bacterial contaminants and parasites.
- ❖ Perform animal testing required to maintain USDA brucellosis certification (USDA certified)
- ❖ Test for equine infectious anemia in horses intended for interstate or international shipment or entered in state fairs or other special events. (USDA certified)
- ❖ Evaluate raw and finished dairy products for bacterial contamination, antibiotics, and pasteurization (FDA certified).

The usual recommended net square feet/analyst for laboratories cannot be applied to the DEC laboratory because of the special space requirements for the variety of work. In addition, there are minimum requirements no matter the size of the laboratory with regards to safety. There are special separation requirements for solvent, chemical and gas cylinder storage. The staff size requires the analysts to do multiple tasks but to be efficient, effective and accurate they need dedicated space. The proposed design addresses these needs very effectively. The DEC laboratory has program requirements that I doubt are duplicated anywhere in the United States.

### Conclusion

The proposed programming/concept design by Livingston-Stone for the State of Alaska DEC Seafood and Food Safety Laboratory captures the flexibility and adaptability of the space to meet the current diversity of work as well as program changes in the future. The variety of work and the need for dedicated space for some of the programs has resulted in the net square feet/analyst being higher than a typical laboratory. The normal space efficiencies cannot be achieved with the large variety of work and small number of analysts. I agree with the design concept and space allocations for the analytical functions as shown in the proposal. This design proposal should meet the needs of the Laboratory for many years. It is a well thought out design.

*John Wiskerchen* 4/19/01  
John Wiskerchen  
Consultant

# LABORATORY COST FACTORS

(as compared to other building types)

*Since square foot costs are higher for laboratory facilities, and many more gross square feet are required for the same net or usable square feet, additional costs are required. Furthermore, items in laboratory facilities not usually found in other types of buildings raise the cost again.*

## Elements of Construction Contributing to Higher Square Foot Costs

- *Structural System: required to carry heavier loads and be vibration resistant.*
- *Finishes: moisture resistant, cleanable, sealed from adjacent spaces, designed to contain microbes.*
- *HVAC System: requires better filtration, more air ventilation (minimum 10-12 air changes per hour for labs vs. 3-5 air changes for typical office space), 100% exhaust air, and more sophisticated control systems. Several types of exhaust systems are required, some of which require stainless steel ducts and filtration. Laboratory areas are required to be pressurized differentially from non-laboratory areas and adjacent more critical laboratory areas in order to prevent exposure to infectious diseases or pathogens.*
- *Due to the harsh climate in Alaska, we must locate laboratory HVAC internally or in an enclosed penthouse in lieu of rooftop mounted equipment common to laboratory facilities in the lower 48. Translation: more building square footage and higher costs.*
- *Gases: several types of piped gas systems are required for the testing and research conducted.*
- *Plumbing: testing and research conducted requires treated water distribution systems separate from the standard domestic distribution systems. Non-corrosive waste piping systems designed for disposal of acids and other chemicals are required in addition to the standard sanitary and storm drainage systems.*
- *Power: the equipment intensive work requires extensive power distribution and communications systems.*
- *Lighting: the type of work performed requires higher lighting levels, and much of the testing and research procedures being performed at the Seafood and Food Safety Laboratory are required to be federally certified and must maintain a minimum of 100 foot-candles at the worksurface to achieve the required certification. (More stringent than the APHL/MEF.)*
- *Security: the need to maintain a safe laboratory working environment and protect non-laboratory workers and the public from exposure to infectious diseases requires the incorporation of more sophisticated security and access control systems.*
- *Special Construction: many areas, because of the special nature of the procedures conducted, require special walls, ceilings and floors. Building systems are required to be designed to be flexible to accommodate new equipment and procedures required to test for new diseases and pathogens.*

### Equipment and Systems Contributing to Higher Square Foot Costs

- *Items not typically found in other building types are special laboratory countertops/casework, fume hoods, controlled-temperature rooms, glassware washers and dryers, autoclaves and many other types of fixed equipment are a part of the construction cost, consequently raising the square foot costs.*
- *Many operations in research and clinical laboratories are irreplaceable. Alternatively, repeating procedures is extremely costly in time and services. Therefore, redundancy is required to be built in to the utility services. Dual fans, filters and standby power generation are typical, each of which contribute to higher square foot costs.*
- *Safety features not found in other building types are required, including eyewash stations and emergency showers (both of which require a separate tempered potable water distribution system and floor drains), and specialized fire protection systems (e.g., pre-action sprinkler systems to protect equipment and procedures, dry chemical fire extinguishing systems, etc.)*

## CSHB 51 (FIN) -- Seafood and Food Safety Laboratory Frequently Asked Questions

***How many employees work in the lab?*** We currently have 11 employees in our laboratory, and those 11 are slated to work in the new facility.

***Are you proposing to add more employees?*** No, although the Fish Monitoring Program, if approved, will fund one additional food chemist who would work in this laboratory.

***What functions will move with the lab?*** Only the lab functions, which are about 80% seafood related, will move.

***Where is the current lab and where is the new lab proposed to be built?*** The current lab is in a converted grocery store in Palmer and has been there for over 30 years. The building is used both for the Seafood and Food Safety Lab and as office space for other staff. We are proposing to build the new lab facility in Anchorage by the corner of Tudor and Boniface.

***How many employees will remain in the Mat-Su Valley?*** There are 14 DEC employees in the Valley who will remain there. Those staff include the Office of the State Veterinarian, the Dairy Sanitarian, two food inspectors, the Pesticide Program staff, Drinking Water and Wastewater staff, and one staff person with the Statewide Public Services Division.

***Why can't you stay where you are?*** AS 36.30.083 allows the Division of General Services to do a long term lease extension under two conditions: 1) a 15% lease reduction can be achieved or 2) a 10% reduction can be achieved and the American with Disabilities Act (ADA) requirements met. In the case of our current facility, prior rent reductions in exchange for ADA-compliance have already been taken. Understandably, the landlord has told us that she cannot afford another reduction in rent, down to \$.88 sq. ft.

In addition, a private consultant hired by the Department in 1998 to review our current lab found in part:

*The laboratory is located in a converted grocery store. The food safety lab has been in this location for 30 years. The building lacks the basic HVAC requirements to operate a laboratory safely. The electrical power, fire protection and security are all inadequate. The labs are severely overcrowded and the buildings configuration prevents the proper flow of people, laboratory samples, materials, chemicals, etc. The food safety lab has only been able to operate in this facility because of the dedication and creativity of the staff to overcome many obstacles. The laboratory would not meet the requirements of OSHA for safe laboratory operations. The laboratory does not have an adequate HVAC system which is a basic requirement for the safe and effective operation of any laboratory. The operating conditions are such that there has to be constant vigilance on the part of the staff to ensure the validity of the data and to avoid dangerous exposure to chemicals and pathogenic bacteria. To operate a regulatory lab under these conditions is risky!*

***If there are only 11 staff, why is the building proposed to be 19,141 sq. ft.?*** Unlike office buildings, which are sized according to the number of people that will work there, laboratories are sized based on the types of analyses that will take place and the equipment needed to accomplish them. Reasons why laboratories are more costly than office buildings include:

- ◆ more sophisticated HVAC systems are required;
- ◆ in Alaska, the HVAC must be located internally or in an enclosed rooftop penthouse, which means more building; and
- ◆ laboratories require countertops, casework, fume hoods, controlled temperature rooms, glassware washers and dryers, autoclaves, and many other types of fixed equipment that are part of the construction costs and that take up significant amounts of space..

**How does the size of the proposed lab compare with the Department's current Seafood and Food Safety Lab?** The following chart compares the two. It clearly shows the highest percentage growth is in that part of the building that is not used directly by staff but instead in that part of the building that will house the HVAC, mechanical and electrical systems.

	Current Sq. Ft.	Proposed Sq. Ft.
NSF <sup>1</sup> Laboratory Space	4,395	9,376
NSF Administrative Space	3,270	2,210
<b>Total NSF</b>	<b>7,665</b>	<b>11,586</b>
"Support" Sq. Ft. <sup>2</sup>	1,775	7,555
<b>Total Gross Square Footage</b>	<b>9,440</b>	<b>19,141</b>

**How was the size of the proposed laboratory determined?** The department's contractor (Livingston, Sloan) analyzed the program requirements for the laboratory functions to be provided in order to estimate size of the new laboratory facility. The contractor made several site visits where the sample flows and analyses were studied. Industry standards for space, accessibility, and safety for the functions to be performed were then used to develop the net square footage required (the "NSF" referenced above). In support of this net area, space is required for maintenance, heating, cooling, ventilation, plumbing and electrical systems, filters, and other motors, pumps, fans and similar equipment (the "support" area above).

**Do private labs in the state currently do any of these functions?** No. Federal law requires tests done in this laboratory to be done by a state lab, such as dairy analyses. Others analyses may be done by a private lab if it is certified by the U.S. Food and Drug Administration. However, FDA no longer certified private labs.

**How do other states pay for these laboratory services?** At the request of a legislator, we contacted four other states (Washington, Oregon, California and Massachusetts) to determine how these services are provided. All are provided and paid for by the state with general funds.

**Why can't the Department use the Alaska Seafood International Building for the Seafood Lab?** There are several reasons. According to the Director of the Alaska Industrial Development and Export Authority (AIDEA), which owns the building that currently houses Alaska Seafood International (ASI), AIDEA's efforts to find the final investor needed for ASI have been successful. AIDEA expects that ASI will be moving back into production in the near future – probably by this summer. ASI is in compliance with the terms of its lease with AIDEA for the facility so, as the landlord, AIDEA has no legal standing to

<sup>1</sup> NSF = Net Square Footage; it is the sum of all areas in a building that is assigned to, or available for assignment to, an occupant which can be put to useful purposes in accomplishment of an agency's mission including every type of space functionally usable by an occupant, exclusive of custodial areas, circulation, mechanical areas, and building construction elements (permanent walls, columns, etc.)

<sup>2</sup> "Support" square footage includes the interior space for mechanical, electrical, corridors, building structure (walls, etc.) and the rooftop penthouse to cover the ventilation equipment.

cancel the lease. Even if these conditions did not exist, significant renovations would be required in order for a part of the building to be used as the Seafood and Food Safety Lab.

***Why didn't the Department issue an RFP first to see if the private sector could build the facility cheaper?*** The cost to develop an RFP for a laboratory is high. The estimated construction design cost of the proposal currently before the Legislature is \$1,087.0. An RFP would need to be as detailed as the construction design in order to ensure the state gets a building that functions as necessary. General Services has advised us that there is no process in the Procurement Code to allow us to solicit bids unless we intend to award a contract. Instead, we hired private consultants (Livingston, Sloan and Northern Economics) with expertise in lab design and real estate economics to give us their best professional judgment on the cost differences between building and leasing. The consultants concluded that leasing was far more expensive than building a state-owned laboratory.

***What will be the cost per square foot of the new building as proposed?*** The cost per square foot is estimated to be \$4.35 for the entire 20-year bond repayment term. After 20 years, the facility will be fully paid for. This rate is not significantly different from the current rent paid for the State Chemistry Lab located in Juneau, which is also managed by DEC. There, the state currently pays a per-square-footage rent of \$4.26. This rental amount has increased over the years and is expected to increase further as it is tied to the Consumer Price Index.

***What is the total cost of the project?*** \$12,788,000 million with \$11,600,00- million from bond sales through Certificates of Participation and \$878,000 in interest income from that revenue. The sale of these COPs would be authorized with the passage of HB 51. In addition, the capital budget has a small general fund appropriation of \$310,000 for nonbondable costs.

# HB 51 - Seafood and Food Safety Laboratory

Prepared by the Division of Environmental Health, Department of Environmental Conservation

Updated April 27, 2001

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- The current Seafood and Food Safety Lab lease expires on December 31, 2003; the state cannot enter into a long term extension of this lease because the rent reduction required by AS 36.30.083 is not available.
  - HB 51 authorizes the sale of certificates of participation for a state-owned facility, which according to the economic analysis that was conducted by Northern Economics, is the cheapest way to replace the Seafood and Food Safety Lab.
  - Only the laboratory functions, which are 80% seafood related, will move to the new facility.
-

# What's the recommended plan?

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✿ With money previously appropriated by the Legislature, an independent economic analysis was done.

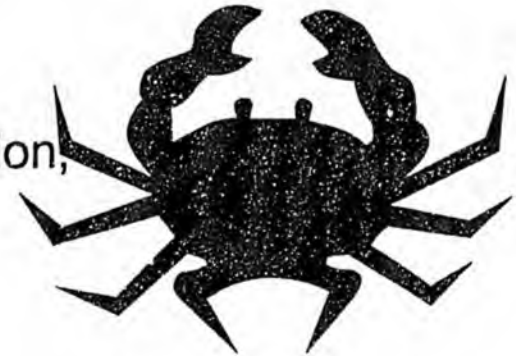
✿ New state-owned laboratory located in Anchorage on state-owned land near the corner of Boniface and Tudor is the most cost-effective replacement plan.

✿ Lease-financing through sale of certificates of participation, Total bond sale: \$11,600,000 plus \$878,000 in interest income.

✿ General fund capital appropriation of \$310,000 for non-bondable costs.

✿ Total project cost: \$12,788,000.

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# Why choose this plan?

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☼ **It's cheaper than leasing.** Over a 20 year term, leasing would cost the State 56% more than owning, even considering interest on repayment of the bonds.

☼ **Laboratories are unique.** They require highly specialized work environments that must be incorporated into the design of the structure.

☼ **Affordable laboratory services are needed on a long-term, dependable basis.** These laboratory services are critical to the growth of our shellfish, seafood and other food industries.

☼ **Why choose Anchorage?** We need a location that

☼ can receive shellfish samples quickly from the Anchorage International Airport,

☼ is on a public sewer system so wastewater can be disposed of safely, and

☼ does not have excessive vibration, dust, or electromagnetic interference that will affect the analytical equipment.

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# What does the lab do?

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- ✿ PSP and shellfish growing water analyses so **shellfish** can be sold in interstate and international commerce.
  - ✿ Chemical analyses to ensure **smoked fish** meets federal requirements.
  - ✿ Domoic acid analyses so **crab** can be sold in interstate and international commerce.
  - ✿ Dairy product evaluation so Alaska's **dairy products** can be sold to Alaskan schools, the military, and in interstate commerce.
  - ✿ **Private lab** certification so they can run drinking water analysis for public water systems.
  - ✿ Work with **commercial food industry** to develop safe ready-to-eat food products.
-

# Why not privatize these services?

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- ☼ FDA does not certify private labs to conduct regulatory PSP testing.
- ☼ Federal dairy rules require certain tests to be conducted by state regulatory labs.
- ☼ The Federal Drinking Water Act requires private labs to be certified by the State.

## **In addition, we keep costs for industry down:**

- ☼ All regulatory testing for PSP, smoked fish, domoic acid, and dairy products are free; we charge only for regulatory PSP testing of export-only shellfish.
  - ☼ Testing done at the request of food manufacturers is also a bargain because of how state law requires fees be established -- not all overhead is included nor is there any profit built in.
-

# What happens if this bill isn't passed?

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☼ The State will have no option but to go out for an RFP for another leased space, even though this is the most expensive way to provide for these essential services.

☼ While the Division of General Services has contract procurement experts, they do not have the expertise to develop an RFP for a laboratory. Professional services contracts -- and the funding to pay them -- would be required. It is estimated the developing the RFP would cost about \$1.1 million.

☼ The additional lease costs would have to be paid by the laboratory, significantly reducing the amount of funding available to do for the variety of analyses it performs for the shellfish, seafood and other food industries.

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[Http://www.state.ak.us/dec/deh/](http://www.state.ak.us/dec/deh/)



STATE OF ALASKA

TONY KNOWLES, GOVERNOR

**DEPT. OF ENVIRONMENTAL CONSERVATION**

**DIVISION OF ENVIRONMENTAL HEALTH  
DIRECTOR'S OFFICE  
555 CORDOVA STREET  
ANCHORAGE, ALASKA 99501  
<http://www.state.ak.us/dec/dch>**

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May 1, 2001

The Honorable Lyda Green  
Chairman, Senate Health, Education and Social Services Committee  
Room 125, Capitol Building  
Juneau, AK 99801

Re: CSHB 51 (FIN), Seafood and Food Safety Laboratory

Dear Senator Green:

I respectfully urge you to hold a hearing on CSHB 51 (FIN) which has been referred to your committee.

Adequate laboratory capacity is critically important to our seafood industry. Certain tests are required in order to sell some seafood products, and whether required or requested by the processor, the test results must be viewed as valid. The current laboratory is so overcrowded and inefficient that the validity of the test results may become questionable. Also critically important to the state and our laboratory employees is a safe work environment, particularly considering laboratory staff routinely deal with harmful pathogens. The enclosed taped tour of the current lab facility will give you an idea of just how crowded it is, and of course, we'd welcome a personal visit from you as well.

We have taken great care to ensure this proposal has the minimum impact on the Palmer area by limiting the project only to the laboratory functions, 80% of which are seafood-related. All other DEC functions and employees currently in the Mat-Su Valley will remain there. This includes the State Veterinarian, the Dairy Sanitarian, two food inspectors, the four pesticide program staff, all of whom are in Palmer, as well as four Drinking Water and Waste Water staff and one member of the Division of Statewide Public Services who are located in Wasilla.

I have been asked several times about our "ag" functions. We do not do any testing on crops; those tests are performed by DNR at the Plant Materials Center. The lab does do some testing of dairy products if the products are intended for human consumption. While these tests are required by the federal government and are as important to the dairy industry as seafood tests are to the seafood industry, the number of dairy samples run each month is extremely small and are not time sensitive as are many of the seafood samples.

I understand there has been some question as to whether or not we really have to move when our lease expires on December 31, 2003. I have enclosed a memo I received from Vern Jones the Chief Procurement Officer that answers that question. The size and cost of the facility has also been questioned. We had the work of Livingston Slone, who has been our contractor for this project,

*Safe Food, Safe Water, Healthy Communities*

The Honorable Lyda Green  
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Page 2

independently reviewed by a Washington-state based consultant who managed the FDA laboratory for 19 years. His conclusion was that the laboratory is appropriately sized. A copy of that report is enclosed as well as some information on laboratory cost factors so you can see some of the reasons laboratories are larger and more expensive on a per-employee basis than an office building.

The House Finance Committee held three hearings on HB 51 and conducted an extensive review of the project. CSHB 51(FIN) reduces the overall project and changes the financing structure for the laboratory. The total cost of the project is now \$12,788,000, a \$1,166,690 reduction. The \$12,788,000 includes revenue from the sale of certificates of participation in the amount of \$11,600,000, interest income estimated at \$878,000 and a general fund appropriation for non-bondable costs of \$310,000. Except for two deferred items noted below, this project cost includes the total cost of facility – the design, site preparation, construction of the building itself, most of the equipment, bringing the utilities to the building, all the necessary permits and approvals, etc.

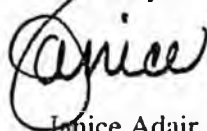
In addition to using the interest income to offset the amount of bonds that need to be sold, the reduction in the project costs includes the following:

◆ Defer equipment purchases until closer to building completion	\$ 375,000
◆ Defer "Biosafety Level 3" status of microbiology lab	\$ 280,000
◆ Reduce administrative/office space by 840 sq. ft.	\$ 200,000
◆ Reduce shipping and receiving area by 144 sq. ft.	\$ 115,000
◆ Reduce other space, 490 sq. ft. total	\$ 196,690
◆ Total actual reductions or deferrals	\$1,166,690

These reductions, along with the current favorable interest rates, have brought the estimated annual amount of rent under the lease-purchase agreement down to \$1 million from \$1,220,000 and reduced the total lease payments for the full 20 year repayment term by more than \$4 million, down to \$20,400,000. Northern Economics estimated that leasing a similar facility from a private developer would exceed \$38,000,000 over the same 20-year period – nearly double the cost of the proposal before you.

Thank you for your consideration of this request. If you or your staff have any questions, please give me a call.

Sincerely,



Janice Adair  
Director

Enclosures

- ◆ Taped Tour
- ◆ Memo from Vern Jones dated April 18, 2001
- ◆ Wiskerchen report dated April 19, 2001
- ◆ Laboratory Cost Factors
- ◆ Frequently Asked Questions
- ◆ CSHB 51 (FIN) Bullets dated April 27, 2001

**MEMORANDUM**

*Department of Administration  
Division of General Services  
vern\_jones@admin.state.ak.us*

**STATE OF ALASKA**

Phone Number: 465-2250  
FAX Number: 465-2189  
TDD Number: 465-2205

**TO:** Janice Adair  
Director  
Division of Environmental Health  
Department of Environmental  
Conservation

**DATE:** April 18, 2001

**FROM:** Vern Jones  
Chief Procurement Officer

**SUBJECT:** Palmer Seafood Safety Lab  
Lease #2359

This is in response to your inquiry regarding the Seafood Safety Lab in Palmer. Lease #2359 with Astro Enterprises has a current expiration date of December 31, 2001. The State has options to extend the lease for two more years. If both of those options are exercised, the lab could occupy this building through December 31, 2003\*. After that date, your agency would have no legal authority to remain in this facility.

The only way in which the lab could remain in the facility past December 31, 2003 is if an emergency procurement is authorized per AS 36.30.310. Such authorization would be valid only for the time necessary to secure replacement lab space through a competitive sealed bidding or competitive sealed proposals process per our procurement code. Such an extension would be subject to the lessor's approval and negotiation of lease terms and conditions. Your agency has an obligation to prevent non-competitive procurements whenever possible. I urge you to take the steps necessary to avoid an emergency procurement for this lab.

\* Upon verifying the expiration date in our lease file, I realized that this is different than the date that we discussed on previous occasions. I apologize if my office provided incorrect information or contributed to a miscommunication regarding this lease.

## **Review of the Proposed Seafood and Food Safety Lab Design**

### **Introduction**

The Department of Environmental Conservation contracted with me to review the programming/concept design prepared by Livingston/Stone (2/22/01) for the Seafood and Food Safety Laboratory. In the review, I looked at the design to determine if it meets the needs of the laboratory as well as space allocation. My background includes 19 years as Laboratory Director of the U.S. Food and Drug Administration Laboratory in Bothell, WA. I retired Jan 1,2000. As Laboratory Director, I was involved in the design and construction of the FDA Lab in Bothell and am currently a consultant to FDA in the design and construction of a FDA Regional Laboratory in Irvine, CA. In addition, I consult with the pharmaceutical industry on meeting FDA requirements including facility design.

### **Review Findings**

My overall impression of the design concept of the laboratory is that it has captured the flexibility and adaptability needed to meet the current diversity of work as well as the program changes of the future. The modular layout will permit the flexibility that is needed to handle minor changes in program needs. A modular addition can be attached to the main corridor, if a major expansion is needed, for new programs. Additional utilities can be added to the existing systems. This design should meet the Laboratory's needs for many years.

In reviewing the proposed program/concept design of the DEC Seafood and Food Safety Lab several important concepts are presented that effect the size of the laboratory. The variety of work done by the Lab along with the dedicated space required to do the analyses accurately and precisely has a dramatic effect on increasing the size of the laboratory. The laboratory has a number of small programs that require less than 1 FTE but because of the uniqueness of the testing required the space must be dedicated. Some examples of specific space requirements are chemical preparation, media preparation, marine toxins, animal microbiology, seafood and food microbiology, drinking water, and wet chemistry. The dedicated space is required to avoid cross contamination that could result in false positives or false negatives in microbiological analyses or inaccurate results in chemical analyses. For example, food microbiology and animal microbiology should not be done in the same laboratory. Chemical determinations should not be done in a microbiology laboratory or vice versa. Despite a small staff, the programs covered by the DEC lab are extensive as illustrated by the following list:

- ❖ Certify in-state laboratories for microbiological analysis of drinking water. (EPA Certified)
- ❖ Conduct product and growing water sampling required by the National Shellfish Sanitation Program (NSSP) to ensure that bivalve shellfish can be marketed. (FDA Certified)

- ❖ Routinely test commercial bivalve shellfish for marine toxins including paralytic shellfish poison (FDA certified) and domoic acid.
- ❖ Analyze finished seafood and general food products for pathogenic bacterial contamination.
- ❖ Analyze fish for five toxic metals – mercury, chromium, cadmium, arsenic and methyl mercury as per the EPA fish advisory program.
- ❖ Evaluate and randomly sample finfish for chemical and bacterial contaminants and parasites.
- ❖ Perform animal testing required to maintain USDA brucellosis certification. (USDA certified)
- ❖ Test for equine infectious anemia in horses intended for interstate or international shipment or entered in state fairs or other special events. (USDA certified)
- ❖ Evaluate raw and finished dairy products for bacterial contamination, antibiotics, and pasteurization (FDA certified).

The usual recommended net square feet/analyst for laboratories cannot be applied to the DEC laboratory because of the special space requirements for the variety of work. In addition, there are minimum requirements no matter the size of the laboratory with regards to safety. There are special separation requirements for solvent, chemical and gas cylinder storage. The staff size requires the analysts to do multiple tasks but to be efficient, effective and accurate they need dedicated space. The proposed design addresses these needs very effectively. The DEC laboratory has program requirements that I doubt are duplicated anywhere in the United States.

### Conclusion

The proposed programming/concept design by Livingston-Stone for the State of Alaska DEC Seafood and Food Safety Laboratory captures the flexibility and adaptability of the space to meet the current diversity of work as well as program changes in the future. The variety of work and the need for dedicated space for some of the programs has resulted in the net square feet/analyst being higher than a typical laboratory. The normal space efficiencies cannot be achieved with the large variety of work and small number of analysts. I agree with the design concept and space allocations for the analytical functions as shown in the proposal. This design proposal should meet the needs of the Laboratory for many years. It is a well thought out design.

*John Wiskerchen* 4/19/01  
John Wiskerchen  
Consultant

# LABORATORY COST FACTORS

(as compared to other building types)

*Since square foot costs are higher for laboratory facilities, and many more gross square feet are required for the same net or usable square feet, additional costs are required. Furthermore, items in laboratory facilities not usually found in other types of buildings raise the cost again.*

## Elements of Construction Contributing to Higher Square Foot Costs

- *Structural System: required to carry heavier loads and be vibration resistant.*
- *Finishes: moisture resistant, cleanable, sealed from adjacent spaces, designed to contain microbes.*
- *HVAC System: requires better filtration, more air ventilation (minimum 10-12 air changes per hour for labs vs. 3-4 air changes for typical office space), 100% exhaust air, and more sophisticated control systems. Several types of exhaust systems are required, some of which require stainless steel ducts and filtration. Laboratory areas are required to be pressurized differentially from non-laboratory areas and adjacent more critical laboratory areas in order to prevent exposure to infectious diseases or pathogens.*
- *Due to the harsh climate in Alaska, we must locate laboratory HVAC internally or in an enclosed penthouse in lieu of rooftop mounted equipment common to laboratory facilities in the lower 48. Translation: more building square footage and higher costs.*
- *Gases: several types of piped gas systems are required for the testing and research conducted.*
- *Plumbing: testing and research conducted requires treated water distribution systems separate from the standard domestic distribution systems. Non-corrosive waste piping systems designed for disposal of acids and other chemicals are required in addition to the standard sanitary and storm drainage systems.*
- *Power: the equipment intensive work requires extensive power distribution and communications systems.*
- *Lighting: the type of work performed requires higher lighting levels, and much of the testing and research procedures being performed at the Seafood and Food Safety Laboratory are required to be federally certified and must maintain a minimum of 100 foot-candles at the worksurface to achieve the required certification. (More stringent than the APHL/MEF.)*
- *Security: the need to maintain a safe laboratory working environment and protect non-laboratory workers and the public from exposure to infectious diseases requires the incorporation of more sophisticated security and access control systems.*
- *Special Construction: many areas, because of the special nature of the procedures conducted, require special walls, ceilings and floors. Building systems are required to be designed to be flexible to accommodate new equipment and procedures required to test for new diseases and pathogens.*

### Equipment and Systems Contributing to Higher Square Foot Costs

- *Items not typically found in other building types are special laboratory countertops/casework, fume hoods, controlled-temperature rooms, glassware washers and dryers, autoclaves and many other types of fixed equipment are a part of the construction cost, consequently raising the square foot costs.*
- *Many operations in research and clinical laboratories are irreplaceable. Alternatively, repeating procedures is extremely costly in time and services. Therefore, redundancy is required to be built in to the utility services. Dual fans, filters and standby power generation are typical, each of which contribute to higher square foot costs.*
- *Safety features not found in other building types are required, including eyewash stations and emergency showers (both of which require a separate tempered potable water distribution system and floor drains), and specialized fire protection systems (e.g., pre-action sprinkler systems to protect equipment and procedures, dry chemical fire extinguishing systems, etc.)*

## CSHB 51 (FIN) -- Seafood and Food Safety Laboratory Frequently Asked Questions

**How many employees work in the lab?** We currently have 11 employees in our laboratory, and those 11 are slated to work in the new facility.

**Are you proposing to add more employees?** No, although the Fish Monitoring Program, if approved, will fund one additional food chemist who would work in this laboratory.

**What functions will move with the lab?** Only the lab functions, which are about 80% seafood related, will move.

**Where is the current lab and where is the new lab proposed to be built?** The current lab is in a converted grocery store in Palmer and has been there for over 30 years. The building is used both for the Seafood and Food Safety Lab and as office space for other staff. We are proposing to build the new lab facility in Anchorage by the corner of Tudor and Boniface.

**How many employees will remain in the Mat-Su Valley?** There are 14 DEC employees in the Valley who will remain there. Those staff include the Office of the State Veterinarian, the Dairy Sanitarian, two food inspectors, the Pesticide Program staff, Drinking Water and Wastewater staff, and one staff person with the Statewide Public Services Division.

**Why can't you stay where you are?** AS 36.30.083 allows the Division of General Services to do a long term lease extension under two conditions: 1) a 15% lease reduction can be achieved or 2) a 10% reduction can be achieved and the American with Disabilities Act (ADA) requirements met. In the case of our current facility, prior rent reductions in exchange for ADA-compliance have already been taken. Understandably, the landlord has told us that she cannot afford another reduction in rent, down to \$.88 sq. ft.

In addition, a private consultant hired by the Department in 1998 to review our current lab found in part:

*The laboratory is located in a converted grocery store. The food safety lab has been in this location for 30 years. The building lacks the basic HVAC requirements to operate a laboratory safely. The electrical power, fire protection and security are all inadequate. The labs are severely overcrowded and the buildings configuration prevents the proper flow of people, laboratory samples, materials, chemicals, etc. The food safety lab has only been able to operate in this facility because of the dedication and creativity of the staff to overcome many obstacles. The laboratory would not meet the requirements of OSHA for safe laboratory operations. The laboratory does not have an adequate HVAC system which is a basic requirement for the safe and effective operation of any laboratory. The operating conditions are such that there has to be constant vigilance on the part of the staff to ensure the validity of the data and to avoid dangerous exposure to chemicals and pathogenic bacteria. To operate a regulatory lab under these conditions is risky!*

**If there are only 11 staff, why is the building proposed to be 19,141 sq. ft.?** Unlike office buildings, which are sized according to the number of people that will work there, laboratories are sized based on the types of analyses that will take place and the equipment needed to accomplish them. Reasons why laboratories are more costly than office buildings include:

- ◆ more sophisticated HVAC systems are required;
- ◆ in Alaska, the HVAC must be located internally or in an enclosed rooftop penthouse, which means more building; and
- ◆ laboratories require countertops, casework, fume hoods, controlled temperature rooms, glassware washers and dryers, autoclaves, and many other types of fixed equipment that are part of the construction costs and that take up significant amounts of space..

**How does the size of the proposed lab compare with the Department's current Seafood and Food Safety Lab?** The following chart compares the two. It clearly shows the highest percentage growth is in that part of the building that is not used directly by staff but instead in that part of the building that will house the HVAC, mechanical and electrical systems.

	Current Sq. Ft.	Proposed Sq. Ft.
NSF <sup>1</sup> Laboratory Space	4,395	9,376
NSF Administrative Space	3,270	2,210
<b>Total NSF</b>	<b>7,665</b>	<b>11,586</b>
<b>"Support" Sq. Ft.<sup>2</sup></b>	<b>1,775</b>	<b>7,555</b>
Total Gross Square Footage	9,440	19,141

**How was the size of the proposed laboratory determined?** The department's contractor (Livingston, Sloan) analyzed the program requirements for the laboratory functions to be provided in order to estimate size of the new laboratory facility. The contractor made several site visits where the sample flows and analyses were studied. Industry standards for space, accessibility, and safety for the functions to be performed were then used to develop the net square footage required (the "NSF" referenced above). In support of this net area, space is required for maintenance, heating, cooling, ventilation, plumbing and electrical systems, filters, and other motors, pumps, fans and similar equipment (the "support" area above).

**Do private labs in the state currently do any of these functions?** No. Federal law requires tests done in this laboratory to be done by a state lab, such as dairy analyses. Others analyses may be done by a private lab if it is certified by the U.S. Food and Drug Administration. However, FDA no longer certified private labs.

**How do other states pay for these laboratory services?** At the request of a legislator, we contacted four other states (Washington, Oregon, California and Massachusetts) to determine how these services are provided. All are provided and paid for by the state with general funds.

**Why can't the Department use the Alaska Seafood International Building for the Seafood Lab?** There are several reasons. According to the Director of the Alaska Industrial Development and Export Authority (AIDEA), which owns the building that currently houses Alaska Seafood International (ASI), AIDEA's efforts to find the final investor needed for ASI have been successful. AIDEA expects that ASI will be moving back into production in the near future – probably by this summer. ASI is in compliance with the terms of its lease with AIDEA for the facility so, as the landlord, AIDEA has no legal standing to

<sup>1</sup> NSF = Net Square Footage; it is the sum of all areas in a building that is assigned to, or available for assignment to, an occupant which can be put to useful purposes in accomplishment of an agency's mission including every type of space functionally usable by an occupant, exclusive of custodial areas, circulation, mechanical areas, and building construction elements (permanent walls, columns, etc.)

<sup>2</sup> "Support" square footage includes the interior space for mechanical, electrical, corridors, building structure (walls, etc.) and the rooftop penthouse to cover the ventilation equipment.

cancel the lease. Even if these conditions did not exist, significant renovations would be required in order for a part of the building to be used as the Seafood and Food Safety Lab.

***Why didn't the Department issue an RFP first to see if the private sector could build the facility cheaper?*** The cost to develop an RFP for a laboratory is high. The estimated construction design cost of the proposal currently before the Legislature is \$1,087.0. An RFP would need to be as detailed as the construction design in order to ensure the state gets a building that functions as necessary. General Services has advised us that there is no process in the Procurement Code to allow us to solicit bids unless we intend to award a contract. Instead, we hired private consultants (Livingston, Sloan and Northern Economics) with expertise in lab design and real estate economics to give us their best professional judgment on the cost differences between building and leasing. The consultants concluded that leasing was far more expensive than building a state-owned laboratory.

***What will be the cost per square foot of the new building as proposed?*** The cost per square foot is estimated to be \$4.35 for the entire 20-year bond repayment term. After 20 years, the facility will be fully paid for. This rate is not significantly different from the current rent paid for the State Chemistry Lab located in Juneau, which is also managed by DEC. There, the state currently pays a per-square-footage rent of \$4.26. This rental amount has increased over the years and is expected to increase further as it is tied to the Consumer Price Index.

***What is the total cost of the project?*** \$12,788,000 million with \$11,600,00- million from bond sales through Certificates of Participation and \$878,000 in interest income from that revenue. The sale of these COPs would be authorized with the passage of HB 51. In addition, the capital budget has a small general fund appropriation of \$310,000 for nonbondable costs.

# STATE OF ALASKA

TONY KNOWLES, GOVERNOR

**DEPT. OF ENVIRONMENTAL CONSERVATION**

DIVISION OF ENVIRONMENTAL HEALTH  
DIRECTOR'S OFFICE  
555 CORDOVA STREET  
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May 5, 2001

Mr. Hans Neidig  
Office of Senator Lyda Green  
Chair, Health, Education and Social Services Committee  
Alaska State Senate  
Juneau, AK 99801

VIA FAX 907-465-3805

Re: CSHB 51 (FN)

Dear Hans:

As a follow-up to the HESS Committee hearing this morning on the above-referenced bill, I'd like to provide the following information.

Faxed with this letter are 5 pages that provide the detail of the direction given to Livingston, Sloan for their work on this project. The first two pages are the scope of work from the RFP we issued in 1998 for an economic analysis to replace the Seafood and Food Safety Laboratory. The next two pages are from the proposal submitted by Livingston, Sloan, which was ultimately accepted by the State. The 5th page is the scope of work from the second contract we entered into with Livingston, Sloan in December, 2000 to update the 1998 study by removing the concept of combining the Seafood and Food Safety Lab with the State Chemistry Lab and presuming the new facility would be built on state-owned land. These changes were made in order to reduce the cost of the project. I've indicated what I believe are the pertinent sections to demonstrate that "cost effectiveness" of the proposal was a critical part of the deliverables to make reviewing the documents easier for you.

I've also faxed the project budget, which is the last page faxed with this letter that shows everything that is included in the funding in addition to the actual construction.

You also asked me to outline exactly which positions will be staying in the Valley. We currently have two offices in the Valley, one in Palmer with 9 non-laboratory staff, and one in Wasilla with 5 staff, for a total of 14 non-laboratory staff. All will be staying in the Valley. In Palmer, we have the following non-laboratory staff:

- ◆ State Veterinarian;
- ◆ Dairy Sanitarian (classified as an Environmental Health Officer);
- ◆ Two food inspectors (classified as Environmental Health Officers);

*Safe Food, Safe Water, Healthy Communities*

Mr. Hans Neidig  
May 5, 2001  
Page Two

- ◆ Four staff in the Pesticides Program (three are classified as Environmental Specialists and one is classified as an Environmental Technician); and
- ◆ One Environmental Technician who provides support primarily to the food inspectors, dairy sanitarian and the state vet.

In Wasilla, we have the following staff:

- ◆ Four staff with the Drinking Water and Wastewater Program (one is an Environmental Engineer, one is an Environmental Specialist, and there are two Environmental Technicians); and
- ◆ One staff person with the Division of Statewide Public Services (an Environmental Specialist).

Because we have to find other office space for our Palmer staff when the current lease expires, we will need to go out with an RFP for that space. At that time, Mike Conway, the Director of Statewide Public Services, and I plan to combine both offices. It is our hope that we can combine the offices in Palmer. Of course, we will follow the dictates of the Procurement Code, so I can't guarantee the office will be in Palmer but it will be in the Mar-Su Valley.

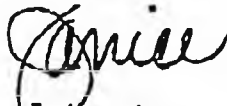
We have good reasons to want our office to be in Palmer. Many people who need water and wastewater approvals from DEC also need approvals from the Borough, so having our office close to the Borough building makes good sense from a public service standpoint. There is a lot of interaction between the State Vet and the Division of Agriculture, which is also located in Palmer. We want to keep that interaction as quick and easy as we can, and staying in Palmer would allow us to do that.

The building that we currently occupy in Palmer would be an ideal location for our combined office because it is very close to the Borough building and has plenty of parking for the public. We've estimated the square footage need for a combined Valley office to be approximately 3,300 sq. ft. however, this number was developed using standard calculations for office space. The Wasilla office has a large number of files because we keep files on all the on-site wastewater systems that are installed in the area. Therefore, the actual amount of square footage needed may be more.

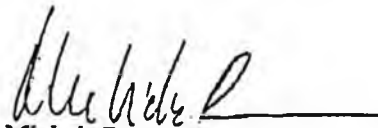
Mr. Hans Neidig  
May 5, 2001  
Page Three

Don't hesitate to call me if there is anything else you need, or if you, Senator Green or members of the committee have any other questions. I am reachable at any time at 229-2909.

Sincerely,



Janice Adair  
Director



Michele Brown  
Commissioner

Enclosures as noted

cc: Kurt Fredriksson, Deputy Commissioner (w/encl.)

1998 RFP

## SCOPE OF WORK

## SECTION SIX

6.1 Tasks**Task I: Determine Cost Effective Location for the Food Safety Laboratory**

This task will include, but not limited to, the following:

- a. Land availability.
- b. Availability of utility, sanitary sewer, potable water and solid waste disposal that will include sharps and biological tissues not of human origin.
- c. Laboratory sample delivery from the regulated community, food producers and processors.
- d. Building security.

**\* Task II: Develop a cost/benefit analysis based on best business practices and make a recommendation for the State to lease or own the Food Safety Laboratory.**

This task will include, but not be limited to, the following:

- a. Long-term building maintenance and repair.
- b. Upgrades to the building that may be needed to accommodate changing Federal, State and local laws and changing technology.
- c. Laboratory sample distribution.
- d. Estimated operational costs for 20-40 year occupancy.
- e. Develop lease cost versus lease purchase option for building replacement.

**\* Task III: Develop a conceptual design and cost estimate for the Food Safety Laboratory, based on findings in Task II.**

This task will include, but not be limited to, the following:

- a. Land costs
- b. Utilities, sanitary sewer, potable water, and waste disposal costs.
- c. Construction costs to include:
  1. Building for laboratory and office space.
  2. Electrical distribution within the building.
  3. Equipment and supply delivery, i.e., loading dock, hallway width, passage door width
  4. Ventilation system for:
    - (a) office space
    - (b) chemical storage
    - (c) chemical laboratory room
    - (d) microbiological laboratory room
    - (e) animal room
    - (f) general storage room

State of Alaska  
Department of Environmental Conservation  
RFP Format & Instructions

5. Heating system that is regulated in individual rooms.
6. Sanitary waste to include chemical, microbiological and normal waste products.
7. Lighting for laboratory and office areas that meets the standard design criteria for both laboratory and office space.
8. Multiple telephone and computer access ports in each laboratory and office room.
9. Miscellaneous including employee and visitor paved parking and building security system with fence.
10. Modular laboratory counters, desks, and specialized equipment and other state-of-the-art construction which addresses changing laboratory technology.
11. All applicable inspections for ADA, building codes and laboratory safety requirements.

Task IV: Develop a cost/benefit analysis and make a recommendation to the State for a combined Food Safety and State Chemistry Laboratory.

This will include, but not be limited to all items from Task I and II, and interaction with the associated commercial environmental laboratories.

Task V: If recommended, develop a conceptual design and cost estimate for the combined laboratory.

This will include, but not be limited to, all items in Tasks I and III.

6.2 Project Schedule

The proposer shall submit a time line showing the expected duration of the project with all significant points, milestones and products indicated. We expect to close the contract no later than November 1, 1998.

6.3 Equipment/Facilities Provided by the Contractor

All required to perform the contract.

6.4 Submittal of Report

Three copies of the final report which includes detailed findings and recommendations will be provided to the Department at the close of the contract.

6.5 Renewal Options

No renewal options will be available for this contract.

*This →  
idea  
has been  
dropped  
from  
current  
proposal.*

Proposal  
Food Safety Laboratory Feasibility Study

1998 Livingston, Sloan  
Proposal

August 3, 1998

### Section One: Understanding of the Project

#### 1.1 Project Understanding

The Department of Environmental Conservation (DEC) Food Safety Laboratory serves a critical role in the monitoring and documentation of the safety of food products produced in Alaska. As a working lab, the Food Safety Laboratory is responsible for the testing of meat, drinking water, dairy and fisheries products for microbiological contaminants. Chemical analysis of these same food products is also performed and all test results must be documented, processed, and then archived for future reference. The Food Safety Laboratory is also responsible for training laboratory personnel and for the coordination of information and testing procedures with the FDA. The Food Safety Laboratory must meet changing program demands as well as seasonal testing demands.

For 30 years, staff working at the Food Safety Laboratory in Palmer have been providing this very important community service from a facility not designed to be a working lab, but rather a retail building. Personnel have gone the extra mile to make their existing facility function so as not to compromise the work being performed. Changing laboratory practices, FDA requirements, and equipment demands, however, are making the existing facility woefully inadequate. Existing laboratories are equipped with second hand and salvaged laboratory casework; and decontamination, sterilization, testing, and instrument storage areas are severely crowded. The building lacks the necessary building infrastructure to meet current laboratory standards, codes, and operational requirements.

→ The Food Safety Laboratory Feasibility Study will provide the DEC with the necessary framework to begin planning a new Food Safety Laboratory and it will identify the most cost effective plan of action. A site selection process will be used to identify potential locations for a new facility, and → cost/benefit analysis will be conducted to establish a recommended course of action. A conceptual design and cost estimate will then be developed for the recommended approach. The feasibility study will also examine the feasibility and benefits of combining the existing State Chemistry laboratory currently located in Juneau, with the proposed new Food Safety Laboratory. The feasibility study will provide a final recommendation which the DEC can take to the State Legislature.

#### 1.2 Project Deliverables

- **Determine Cost Effective Location**

A new location for the Food Safety Laboratory and/or a combined Food Safety/State Chemistry Laboratory which is cost effective will be one of the deliverables included in the Feasibility Study. Available vacant lands as well as available lease space will be examined in the Anchorage and Palmer/Wasilla areas. A set of Site Selection Criteria will be developed with the DEC and user representatives. It is anticipated that the criteria will include, but not be limited to, items such as availability of site utility infrastructure and fire protection, laboratory sample delivery requirements, lease capabilities, future expansion capabilities, etc.

- **Develop Cost/Benefit Analysis - Food Safety Laboratory**

The Cost/Benefit deliverable portion of the Feasibility Study is key to the future success of the project. The analysis must be comprehensive and adequately address the economic issues surrounding the proposed Food Safety Lab. The analysis will address benefits over the life of the project and incorporate the site options identified in the location search, as well as long term upgrades, maintenance, and operational costs. Lease versus own costs and benefits will be analyzed.

Proposal  
Food Safety Laboratory Feasibility Study

August 3, 1998

This idea  
has been  
dropped  
from  
current  
proposal

• **Develop Cost/Benefit Analysis - Combined Food Safety & State Chemistry Laboratory**  
Similar to above, the Cost/Benefit Analysis for a combined facility will address the economic issues surrounding this project scenario. Additional program benefits and efficiencies realized by a combined facility will be uncovered, and any cost savings will be identified.

• **Conceptual Design(s) and Cost Estimate**

A Conceptual Design will be developed for the Food Safety Lab and/or a combined Food Safety/Chemistry Laboratory. The Conceptual Design will serve to test the project on the proposed site and provide a first level analysis of how the new laboratory may begin to take shape. The conceptual design deliverable will need to include a conceptual level facility program to establish the basic design parameters such as square footage requirements and building systems requirements. These design parameters and conceptual layout will be used to develop a conceptual cost estimate as part of this deliverable.

### 1.3 Timeline

The following Proposed Timeline reflects our proposed methods and a suggested time frame in which to accomplish the Food Safety Laboratory Feasibility Study. Key deliverables have been identified. The eight week planning period is flexible and will most likely be modified to reflect a more detailed Scope of Services following our initial project meeting, or during contract negotiations prior to NTP.

Assuming an early September 1998 start, the Food Safety Laboratory Feasibility Study will be finalized in early November in time for DEC to process for the 1999 legislative session and funding consideration.

12/2000 Contract  
Scope of Work

## APPENDIX C

### Scope of Work

Appendix C consists of the scope of work for services to be performed as outlined and negotiated between Livingston Slone, Contractor, and Bert Hartley, Project Director.

#### Overview

The Department of Environmental Conservation (DEC), Environmental Health Division is in need of relocating the Food Safety Laboratory (FSL) from its current facility. The FSL has resided at its current location for over thirty years without upgrade or renovation, and the facility lease expires in December 2000. In FY1999 the Department contracted for a feasibility study that included conceptual design, general layout with equipment requirements, relocation analysis and rough order of magnitude cost estimates for new construction. The Department is in need of updating this study with additional options, to make a determination and recommendation as to the best course of action to relocate the FSL.

#### Scope of Work

The Contractor, is requested to provide professional expertise and technical consultant services to assist the DEC Environmental Health Division in determining the best course of action and recommendation for relocating the Food Safety Laboratory. Contract specific scope of work includes, but may not be limited to the following:

- • Re-work the matrix developed as part of the FY1999 feasibility study, to show the economic variations between leasing, lease purchasing, and building a state owned/operated FSL. Incorporate into the matrix additional options including new construction on state owned property.
- Develop criteria for selecting land suitable for a Food Safety Laboratory.
- Evaluate available state owned land parcels utilizing suitability criteria. Available state owned property to be provided to Contractor by DEC for evaluation.
- Assist DEC in the review of updated options including recommendation for best course of action.
- Obtain and review the Legislative presentation developed by DH&SS in support of the new PHS laboratory. Modify and tailor the presentation to support DEC Food Safety Laboratory.
- Contractor to attend meetings and provide briefings as required in connection with scope of work.
- Contractor will coordinate with Project Director as to schedule of activities, progress and timing of deliverables.

(Did not include combining both labs)

UPDATED FOR CSHB 51 (FIN)

PROJECT BUDGET		Date Budget Prepared: 4/26/01
PROJECT NAME: DRC Food Safety Laboratory - ANCHORAGE		Budget Revision: Afta Concepts
PROJECT No: 54814		Client Concurrence: _____
DOT&PF MANAGER: Matt Tanaka PE (269-0824)		(signature & date)
CLIENT AGENCY: Dept. of Environmental Conservation		
CONTACT: Bert Martley (269-7662) FAX 269-7654		
Palmer Lab. Dick Barrett (745-2236)		
STAGE OF PROJECT:		
Startup <input checked="" type="checkbox"/> Programming <input type="checkbox"/> Schematic Design <input type="checkbox"/> Design development <input type="checkbox"/>		
Constr. Document <input type="checkbox"/> Bid Period <input type="checkbox"/> Award <input type="checkbox"/> Constr. ( <input type="checkbox"/> Complete) <input type="checkbox"/> Closeout <input type="checkbox"/>		
DESIGN PHASE:	BUDGET	COMMENTS:
Design Fees	\$238,820	Consulting fees for design
Design A/E Contingency	\$161,529	Allowance for design amendments
Design Administration Bldg	\$76,888	DOT&PF project management
Right-of-way (NB)	\$12,000	Acquire land interests, easements
Utilities	\$10,000	Utility permits, easements
Environmental (NB)	\$14,000	Investigations and reports
Technical Services (NB)	\$8,000	Advertise and award contract
Technical Services	\$30,000	Plan sets reproduction costs
Pre-Award Audit (NB)	\$3,500	Audit prior to contract award
MOA Plan Reviews	\$35,720	Plan review fee
Misc. Meetings	\$25,000	Public meetings, P&Z, UDC presentations
ICAP Design Phase (NB)	\$26,710	2% for DOT administration
<b>DESIGN PHASE TOTAL</b>	<b>\$1,362,200</b>	
CONSTRUCTION PHASE:	BUDGET	COMMENTS:
Construction Contract	\$7,845,000	20,500 sq. ft. Type I FFE, utilities, access
Bidding Contingency	\$235,350	1% bidding contingency
Change Order Reserve	\$784,500	10% change order reserve
Subtotal for Construction Contract	\$8,864,850	
A/E Bid/Constr. Assistance	\$224,400	partial bid. construction assistance by A/E
Special Inspection	\$40,000	per 1997 USC
Site Clearing	\$10,000	prevention of migratory bird nesting
Constr. Administration	\$330,440	DOT&PF construction administration, inspection
Artwork, AS 35.27.020	\$88,450	1% for art per ASCA
Group II Furnishing, Fixtures, Equip (FFE)	\$1,021,360	Type II FFE budget per DEC
Legal (NB)	\$7,800	Contract reviews and proposals
Concurrent Review (NB)	\$3,000	Project review and closeout
Project Contingency	\$392,300	5% of const contr for scope creep, unknowns
ICAP Construction Phase (NB)	\$235,000	2% for DOT administration
Bio Safety Level 3 (BSL3) Features	\$8,000	Design adjustments for future conversion of niche areas to BSL3
<b>CONSTRUCTION PHASE TOTAL</b>	<b>\$11,225,800</b>	
<b>TOTAL DOT&amp;PF BUDGET</b>	<b>\$12,580,000</b>	COMMENTS: Assume site on DMVA pad. Costs are adjusted from 2/14/00 estimate based on refinement of conceptual design. Budget items determined ineligible for Certificates of Participation (bonds) are identified (NB).
<b>PROJECT FINANCING</b>	<b>\$200,000</b>	
<b>TOTAL PROJECT BUDGET</b>	<b>\$12,788,000</b>	
<b>(NB) BUDGET ITEMS</b>	<b>\$310,000</b>	
<b>BOND EL' BIZ BUDGET</b>	<b>\$12,478,000</b>	

NB = nonbonable costs: that amount, totalling \$310,000 was in capital budget as General Fund.

**HB**

**54**

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: CSHB 54(EDU)  
 (H) Publish Date: 2/16/01

Revision Date/Time (Note if correction): 2/14/01/4:00PM Education  
 Title: An Act relating to the rate of interest applicable to student loans; and providing for an effective date. BRU: ACPE  
 Component: Student Loan Operation  
 Sponsor: Rep. Davies  
 Requester: (H) HESS Component Number: 213

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous	0.0	177.6	360.8	549.5	743.5	942.3
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>177.6</b>	<b>360.8</b>	<b>549.5</b>	<b>743.5</b>	<b>942.3</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	177.6	360.8	549.5	743.5	942.3
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>177.6</b>	<b>360.8</b>	<b>549.5</b>	<b>743.5</b>	<b>942.3</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation prospectively changes the terms and conditions of loans issued under the Alaska Student Program to allow for an interest rate reduction for any borrower who has completed a career education program or received an undergraduate degree and is employed within the state.

HB54 recognizes that Alaska Student Loans are made available through the sale of bonds issued and subject to the terms of a Trust Indenture. Bond covenants would prevent use of corporation cash to fund the reimbursement proposed.

Operationally, a data management process would need to be developed and staff designated to track the employment status of borrowers remaining in or returning to Alaska.

To estimate the cost of this legislation, loan originations are assumed to be \$50,000,000 each year beginning with the 2001-2002 academic year. Based on 35% eligibility, two scenarios are provided to show funding requirements for a 50 basis point and 100 basis point reduction as provided in this legislation. Costs shown above are the more conservative estimates of 100 basis points.

Prepared by: Sheila King, Finance Officer Phone 465-6757  
 Division: Finance Date/Time 2/14/01 4:00 PM  
 Approved by: Diane Barrans, Executive Director Date 2/14/2001  
 Agency: Alaska Commission on Postsecondary Education

For distribution information, call the Governor's Legislative Office

ANALYSIS: (continued)

\*Estimate of funds required to fund the interest rate reduction on loans originated on or after July 1, 2001, assuming \$50 million in new loans issued each year :

Assumes 35% eligibility:

	2002	2003	2004	2005	2006	2007
50 basis point reduction	0.0	89.0	181.3	276.9	375.6	477.5
100 basis point reduction	0.0	177.6	360.8	549.5	743.5	942.3

Based on these assumptions, the costs would peak at year 15 (2017) at \$1.6 million (50 basis points)/ \$2.9 million (100 basis points).

# Enjoy the Wilderness ; )



HB54

Article last updated:  
Thursday, January 18, 2001 6:19 AM MST

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## Davies offers student loan forgiveness bill

By SEAN COCKERHAM  
News-Miner Juneau Bureau

JUNEAU--Fairbanks Rep. John Davies sees Alaska's talented young adults lured south by the abundance of job opportunities in the Lower 48.

"We have a problem in the state of Alaska," said Davies, a Democrat who represents West Fairbanks. "We have a pretty huge brain drain."

In an attempt to change that, Davies has introduced legislation that would forgive up to half an Alaska state student loan if the borrower is employed in Alaska after graduation.

Davies' bill--and a similar proposal by a Kodiak Republican that would only apply to those borrowers who work in Alaska as teachers--were heard Wednesday by the House Special Committee on Education.

It was the session's first committee hearing of a bill introduced by a Fairbanks lawmaker.

Alaska's student loans are awarded both to residents who go to school in Alaska and those who pursue education out of state. Davies says youngsters who leave the state often do not come back.

Davies' bill, House Bill 54, proposes that a state student loan borrower be reimbursed 10 percent of the cost of the loan for each year they work in Alaska after graduation--up to a maximum reimbursement of 50 percent.

Davies conceded his proposal would be spendy. Preliminary estimates are that it would cost the state \$10 million to \$20 million a year, he said.

"I think it's certainly true that the fiscal note is going to be tough for the Legislature to swallow," Davies said.

But the problem is real, he said. "The question we're going to have to struggle with is whether that investment is worth it."

Davies added that there could be ways to lower the cost of his proposal, such as only applying it to the portion of a student loan that covers tuition.



Rep. Con Bunde, an Anchorage Republican who is chairman of the House Special Committee on Education, said Davies' idea is valid but expensive.

The state used to have a student loan forgiveness program, Bunde said, but discontinued it because of the cost. Bunde said Davies' idea deserves a fair and thorough hearing, but the cost issue is still there.

"I have to be convinced that is the best use of (the state's) scarce resources at this time," Bunde said. "I'm going to have to see some pretty good evidence."

Bunde said that the other student loan proposal, by Kodiak Republican Rep. Gary Stevens, would only cost the state about \$1 million a year. But Stevens' proposal, House Bill 37, also needs to be scrutinized, Bunde said.

The vast majority of the testimony at Wednesday's hearing came via teleconference from Kodiak and focused on Stevens' bill.

Stevens wants to forgive up to half the student loans of borrowers who work as teachers in Alaska after graduation.

"(School) districts in other states are more and more competitive," said Jeff Stephen, president of the Kodiak Island Borough board of education. "Alaska is less and less able to compete for quality teachers."

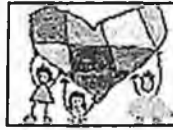
Davies agreed that Alaska needs teachers but said that is just one of the state's needs.

"There are other professions besides teachers where we have shortages, nurses for example," Davies said.

The Special Committee on Education is expected to take up the student loan bills again in two weeks.

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Anchorage Daily News

HB54

## Legislators may forgive loans

**STUDENTS: Two bills try to keep college graduates in the state.**

By Cathy Brown  
The Associated Press

(Published January 18, 2001)

Juneau -- Legislators are looking at two bills that would forgive at least part of Alaskans' student loans.

One would forgive half the Alaska Student Loan bill for people who teach in the state for five years. The other would forgive half of the loan for anyone who simply works in the state five years after graduating.

House Bill 37 by Rep. Gary Stevens, R-Kodiak, is aimed strictly at teachers. They'd get 10 percent of their loan forgiven for every year they each in Alaska, up to five years.

Stevens told the House Special Committee on Education that his bill could help schools recruit and keep teachers.

"We have a major shortage statewide in teachers," Stevens said Wednesday. "This is just a piece of the puzzle. This doesn't solve all our problems."

The Alaska Student Loan Program estimates HB 37 would cost about \$170,000 in the 2003 fiscal year and about \$850,000 by the 2007 fiscal year, said finance officer Sheila King.

An existing Alaska program forgives up to 100 percent of loans for students teaching in rural Alaska, King said. However, students must be nominated for the program in high school by their school districts, must major in education and must return to teach in rural Alaska.

That doesn't help students who decide later in their college career or even after college to become teachers, Stevens said.

A separate bill would forgive part of an Alaska loan for anyone returning to or staying in Alaska to work. It too would forgive 10 percent a year for up to five years.

Rep. John Davies' bill has a higher price tag. Depending on how many people participate, cost estimates range from \$8.5 million by the 2007 fiscal year to \$21.3 million.

Davies, D-Fairbanks, said he wanted to offer the incentive to people in all professions, particularly areas where Alaska suffers from a shortage, such as nursing.

"We have a pretty huge brain drain," Davies said.

Education administrators and parents greeted the bills enthusiastically at a hearing Wednesday.

Districts around the country are short of teachers and are offering such breaks as signing bonuses and low-interest housing loans, said Jack Walsh, an administrator with the Kodiak Island Borough School District.

"There are a lot of things we have to compete with," Walsh said.

He suggested forgiving a greater percentage of a loan for those teaching in such hard-to-fill specialties as math and special education.

Arnold Shryock of Kodiak said he'd like to see the plan apply to people like his daughter who've already taken out loans. Both bills would apply only to loans taken after June 30, 2001.

Rep. Con Bunde, R-Anchorage, who chairs the Special Committee on Education, said both bills offer potential solutions to valid concerns. He's not sure, though, whether the state can afford them or whether they're the most cost-effective ways to keep good workers.

"As always, the devil's in the details and the dollars," Bunde said.

The committee took no action on either bill Wednesday. Bunde said they will be considered again in two weeks.

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HB57?



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Thursday, February 01, 2001 6:23 AM MST

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mnttop by editor

## Davies scales back student loan measure

By SEAN COCKERHAM  
News-Miner Juneau Bureau

JUNEAU--A blend of public support and legislative sticker shock greeted Rep. John Davies' proposal to forgive Alaska student loans owed by graduates who choose to work in-state.

So Davies, a Fairbanks Democrat, reworked the bill. He said Wednesday he wants to slash the price tag while maintaining the original spirit of the legislation.

"Which was to provide an incentive for educated people to remain in-state," Davies said.

Davies' original proposal had sought to forgive up to half a state student loan if the borrower was working in Alaska after graduation.

The bill drew interest from legislators and especially the public, Davies said. But its Achilles' heel was an annual cost to the state now estimated at as much as \$30 million a year.

"I don't think (the Legislature) would be able to swallow that," Davies said.

The new version--Davies introduced it at a Wednesday meeting of the House Special Committee on Education--would instead reduce student loan interest rates by up to 1 percent for graduates employed in Alaska while they are paying off the loan.

Davies said he expects the program would inspire college graduates to take a closer look at the opportunities that exist at home in Alaska. "Not as strong an effect as I originally intended, but nevertheless a significant effect," he said.

The state student loan program currently has the unintended effect of encouraging a brain-drain from the state by financing Alaska students who attend school in the Lower 48, Davies said.

"Since students are likely to gain employment near the school from which they graduate, by helping them study Outside, we help them stay Outside," Davies said. "After investing in 12 or more years of education for our children, we should encourage them to utilize their skills and talent close to home."

Davies told the committee that his new proposal may not require any direct drain on the state's general



fund.

He believes the Alaska Student Loan Corp. might be able to handle the cost through its own net income, gained through investments and its loan portfolio.

The student loan corporation is slated to contribute \$4 million of such money to the state's general fund this year, Davies said.

But Davies said his cost estimate is preliminary. He intends to bring a better figure to the committee when it discusses his bill again next week.

Anchorage Republican Con Bunde, chairman of the special committee, said he is waiting to hear that figure before drawing conclusions about Davies' new proposal.

"I'll take a look at the fiscal note," said Bunde, noting that there are two other similar bills before his committee. "We have to really decide what is the most appropriate investment of our limited educational funds."

Those other bills both seek to offer student loan forgiveness just for graduates who work as teachers.

One, by Kodiak Republican Gary Stevens, aims to forgive up to half the Alaska student loans of borrowers who work as teachers in Alaska after graduation. Bunde has estimated that bill would cost the state around \$1 million a year.

Stevens' bill has drawn a great deal of public testimony regarding the state's teacher recruitment problems. Davies, and some members of the public who have testified in committee, say the shortage is not just in teachers but in other skilled positions as well.

Diane Barrans, executive director of the Alaska Commission on Postsecondary Education, raised the question of whether the loan breaks would be primarily used by people who would stay in Alaska anyway. "It may not have the intended effect," she said.

The other House bill, which also asks for up to half the student loan forgiveness for teachers, was introduced by Anchorage Republican Joe Green. It has not yet been heard in committee.

Bunde said his committee will look at all three bills together at a hearing next week.

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**HB**

**71**

PO Box 875735  
Wasilla, AK 99687  
May 2, 2001

Senate HESS Committee:

Lyda Green  
Loren Leman  
Jerry Ward  
Gary Wilkin  
Betty Davis

Dear Senate HESS Members,

Historically, Alaska has been on the cutting edge of providing education to all children, the exceptional in every way. Last week, House HESS removed Article 3a from HB 71, effectively killing gifted education in this state.

It is my understanding that HB 71 is now in your committee. It is my further understanding that House Finance restored Article 3a to HB 71. I would ask that you check to see that is so, and to express your support for keeping Article 3a in HB 71.

A big thank you to Reps. Cissna, Croft and Whitaker for their support and work on behalf of Alaska's best and brightest students.

My children deserve a free, APPROPRIATE education, just like every other child in this state. My tax dollars support education for all children...including my gifted child! Being smart does not mean these children do not have special needs. They do, just as much as the 'handicapped'. They do not fit in within the 'normal' range and need our support and assistance. Research for the past 30 years supports this. I have access to several web sites that can bring you up to speed on the needs of the gifted and their struggles to 'fit in' our current educational system. Please feel free to contact me if you wish to know more.

Thank you for your consideration. Our children thank you as well.

Sincerely,



Chris Casler  
Parent and advocate for all children with needs

Phone 376-3739

ccasler@alaska.net

# Trapper Creek Elementary School

P.O. Box 13108

Trapper Creek, Alaska 99683

(907) 733-2298 Fax (907) 733-1370

Dear Legislator,

As an educator, I find it distressing to learn the funding for the gifted has been removed from HB 71. Gifted education programs are a vital part of our educational program and should be continued to be included in the educational funding package.

This program should be mandated by the Alaska Legislature for the future of Alaska's kids. Please reconsider your decision.

Sincerely,



Alberta Nordberg  
Teaching Principal

# FISCAL NOTE

**STATE OF ALASKA  
2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: HB 71  
 (H) Publish Date: 01/17/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Education & Early Dev.  
 Title: An act relating to special education... BRU: Teaching & Learning  
 Sponsor: Rules Committee Component: Special and  
 Requester: Governor Component Number: 166  
Supplemental Services

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: **0.0**

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Currently, the department is charged, by state statute, to administer the state's Gifted Education program. This legislation clarifies the state's responsibilities relating to the Gifted Education program. Although the legislation does not add new responsibilities, the department has not had the resources to meet the requirements. Federal special education funds cannot be used for this purpose. The department has requested an increment of \$177,700 in general funds in the FY2002 budget for the Division of Teaching and Learning Support, Special and Supplemental Services Component to cover the costs for administering this program.

Prepared by: Barbara Thompson Phone 465-8727  
 Division: Teaching and Learning Support Date/Time 11/14/00 10:00 AM  
 Approved by: Bruce Johnson, Deputy Commissioner of Education Date 11/14/00  
 Agency: Dept. of Education & Early Development

For distribution information, call the Governor's Legislative Office

**HB**

**76**

**CS for SS for HB 76 (FIN) NEW FACILITIES FOR API  
By Representative Norman Rokeberg**

**Sectional Analysis**

Sec.	Section Title	Description
1	FINDINGS AND INTENT	Funding sources for the construction of a new API facility are: (1) \$19.2 million from previous appropriations that weren't sufficient to complete construction; (2) \$16 million from certificates of participation as described in this bill; (3) \$2 million from monies previously set aside by the Alaska Mental Health Trust Authority; (4) \$1 million from monies to be available July 1, 2002 from the Alaska Mental Health Trust Authority; and (5) \$3,544,000 from investment income from previously set aside funds. Shared vision from April 2001 provides the framework for land exchanges and other commitments to facilitate the replacement of the facility. A road extension is contemplated, but will be addressed separately, possibly through federal funding.
2	REPLACEMENT OF THE ALASKA PSYCHIATRIC INSTITUTE	The commissioner of DH&SS will provide for the construction of a new API facility, which must include a forensic psychiatric unit.
3	DELEGATION OF AUTHORITY FOR LEASE-PURCHASE AGREEMENT	DH&SS is delegated DoA's authority under AS 36.30.085 (Public Contracts; State Procurement Code; Organization of State Procurement; Lease-purchase agreements) to enter into a lease-purchase agreement.
4	LEASE-PURCHASE PAYMENTS	Lease payments are subject to annual appropriation by the legislature.
5	NOTICE OF ENTRY INTO AND FINANCING OF LEASE-PURCHASE AGREEMENT	DH&SS is authorized to enter into a lease-purchase agreement for a API facility. The state bond committee is authorized to provide for the issuance of certificates of participation in the total amount of \$16 million. The estimated total cost of construction, acquisition, and equipping the project is \$41,744,000. The estimated amount of rental under the lease-purchase agreement is \$1,640,000. The estimated total lease payment is \$24.6 million. Upon completion of payment under the certificates of participation, title to API will vest in the state. The bond committee may contract for services it considers necessary to finance the project.
6	APPROVAL OF AGREEMENT	Section 5 constitutes the approval required is AS 36.30.085 (Public Contracts; State Procurement Code; Organization of State Procurement; Lease-purchase agreements).
7	effective date	Immediately.

# FISCAL NOTE

**STATE OF ALASKA  
2001 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: CS HB 76 (Finance)  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
 Title: New Facilities for API BRU: Revenue Operations  
 Component: Treasury Division  
 Sponsor: Representative Rokeberg  
 Requester: Finance Committee Component Number: 121

**Expenditures/Revenues (Thousands of Dollars)**

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel	10.0					
Contractual	10.0	10.0	10.0	10.0	10.0	10.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Debt Service		1,635.9	1,639.9	1,636.4	1,635.7	1,636.0
<b>TOTAL OPERATING</b>	<b>20.0</b>	<b>1,645.9</b>	<b>1,649.9</b>	<b>1,646.4</b>	<b>1,645.7</b>	<b>1,646.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE (Thousands of Dollars)**

1002 Federal Receipts						
1003 GF Match						
1004 GF	20.0	1,645.9	1,649.9	1,646.4	1,645.7	1,646.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>20.0</b>	<b>1,645.9</b>	<b>1,649.9</b>	<b>1,646.4</b>	<b>1,645.7</b>	<b>1,646.0</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

This legislation identifies \$41,744,000 in funding for a new Alaska Psychiatric Institute facility comprised of the following:  
 1) \$19.2 million in prior appropriations; 2) \$3 million from the Alaska Mental Health Trust Authority; 3) \$16 million in proceeds from the sale of Certificates of Participation (COPs); and 4) \$3,544,000 in investment earnings on existing appropriations and COP proceeds.

Annual debt service on the \$16 million in COPs is estimated at \$1.64 million using the assumptions of 15-year term and a true interest cost of 5.67% (about 0.5% above April 2001 market rates for a competitive bond sale). Debt service will begin in fiscal year 2003, with total repayment estimated at just under \$24.6 million. The interest cost estimate is necessary due to the volatility in interest rates and the difficulty in accurately forecasting what market rates will be in the future.

Prepared by: Deven Mitchell, Debt Manager Phone 465-3750  
 Division: Treasury Division Date/Time 4/23/01 10:00 AM  
 Approved by: Larry Persily, Deputy Commissioner Date 04/23/2001  
 Agency: Department of Revenue

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# ALASKA STATE LEGISLATURE

## House of Representatives

### COMMITTEE ASSIGNMENTS

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## Representative Norman Rokeberg

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### SECTIONAL ANALYSIS CSSSHB 76 ((FIN)) New facilities for API

Prepared by Office of Rep. Norman Rokeberg

- Section 1:** Findings and intent language.
- Section 2:** Requires the Commissioner of Health and Social Service to provide for the replacement of a new facility to be known as Alaska Psychiatric Institute ("API"). The new facility is to include a forensic psychiatric unit.
- Section 3:** Delegates authority to the Department of Health and Social Services to enter into a lease-purchase agreement for a new API facility.
- Section 4:** Provides that lease payments owed under the lease-purchase agreement are subject to appropriation by the Legislature.
- Section 5:** Authorizes the Department of Health and Social Services to enter into a lease-purchase agreement for a facility for API. The state bond committee is authorized to issue certificates of participation in the amount of \$16,000,000. The amount received from the issuance of the certificates of participation is to be combined with \$22,000,000 that has already been set aside for the construction of a replacement API along with \$3,544,000 of investment income earned on other money sources for a total cost of construction, acquisition and equipping the project in the total amount of \$41,744,000. Estimated annual amount of rental obligation under the lease-purchase agreement is \$1,640,000 for the estimated total lease payment for the full term of the lease purchase agreement of \$24,600,000. "Cost of construction" includes the various items

**Sectional Analysis  
CSHB 76 (FIN)  
Page 2**

**set forth in the bill. Upon the payment of all principal and interest due under the agreement, the title to the facility shall vest in the State of Alaska. Authorizes the state bond committee to contract for certain activities in financing the project.**

**Section 6: Gives notice that Section 5 of the bill satisfies the notice and approval requirement under AS 36.30.085.**

**Section 7: Immediate effective date.**

**ED1:04/25/01**

# FISCAL NOTE

STATE OF ALASKA  
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSSSHB 76(HES)  
(H) Publish Date: 3/29/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: \_\_\_\_\_  
Title: New Facilities for API BRU: \_\_\_\_\_  
Sponsor: Rep. Rokeberg Component: \_\_\_\_\_  
Requester: House HESS Component Number: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: 0.0

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Prepared by: Randy Lorenz, Committee Aide Phone 465-3759

Representative Representative Dyson Date 3/28/01  
Committee Chair

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: 2  
 Bill Version: CSSSHB 76(FIN)  
 (H) Publish Date: 4/21/01

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DOT&PF  
 Title: HB 76: An Act providing for and relating to the BRU: \_\_\_\_\_  
issuance of certificates of participation for construction of API Component: \_\_\_\_\_  
 Sponsor: House Finance  
 Requester: \_\_\_\_\_ Component Number: \_\_\_\_\_

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>20,315.0</b>		
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<b>CHANGE IN REVENUES ( )</b>						
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts				20,315.0		
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>20,315.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

Prepared by: Kurt Parkan, Deputy Commissioner Phone 465-6977  
 Division: Commissioner's Office Date/Time 4/20/01 1:30 PM  
 Approved by: Joseph L. Perkins, Commissioner Date \_\_\_\_\_  
 Agency: DOT & PF

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The following assumptions were used:

Parties to the Memorandum of Understanding will secure a special federal appropriation specifically for the construction of the road and demolition of the existing hospital.

If project is funded through Federal Highways Administration, it will be subject to applicable AMATS processes, including consistency with the Long Range Transportation Plan.

**Wright Street extension to Providence Drive:**

Project Cost Estimate:

Demolition of existing API estimate: \$15,700,000  
Road construction: \$3,000,000

- ROW will be dedicated by the property owner and will not have to be purchased.
- This will be a two-lane urban collector street with curb and gutter, sidewalks behind the curb and a separated pathway on one side.
- Existing access from Providence Drive to API will be reconstructed.
- Provisions for turning movements at major facilities and side streets will be required.
- Above cost estimates could vary significantly depending on public concerns, wetlands, building removal site cleanup and existing utility location.

**Reconstruction of Wright between 40th and Tudor**

Project Cost Estimate: \$1,700,000

- Assumes same 2-lane road as Wright Street to Providence Drive
- Assumes existing ROW is sufficient
- Utility costs are preliminary and could increase significantly depending on impacts with gas line, fiber optic cable, electric and telephone utilities.
- Project may require air quality conformity determination and a noise analysis. If noise barriers are necessary, costs will be greater.