Commonwealth North, Board of Directors
Fiscal Policy Study Group – Draft 12/06/19

In April of 2019, Commonwealth North's (CWN) Board of Directors approved a two-phase approach for its Fiscal Policy Study Group to research State of Alaska Debt. Phase one of the study was a review of cost drivers for overall state debt, and phase two of the study will look at Alaska's pension liabilities.

The discussion is especially timely because in 2015 the Legislature placed a five-year moratorium on new projects participating in Alaska's State Debt Reimbursement Program (SDRP) – bond debt reimbursement for school construction. This moratorium expires at midnight on June 30, 2020.

Based on the study group's discussion, Commonwealth North believes it is critical that the Legislature review how school construction is funded and how the State should participate in school funding in the future. Current State law allows incorporated cities, boroughs, and municipalities to obligate the state for school construction without regard of the State's ability to pay those new debt service payments. Should the SDRP continue or should some other program be put in place prior to the SDRP moratorium's expiration?

The goal of the study group is to understand and elevate the conversation concerning debt with Alaskans and demonstrates why public debt should matter to Alaskans.

Why is state debt important to Alaskans?

- State debt repayment is a legal obligation. State debt is required to be repaid to maintain the state's ability to borrow for public purposes.

- In fiscal year 2019, per the Office of Management and Budget reports, the total amount of annual general fund debt service payments was $441.1 million. Annual debt service payments have the potential to grow by $100's of millions of dollars in the coming years for currently authorized debt programs.

- Per the 2019 Alaska Public Debt Report, the state has potential liability for repayment of principal and interest of $14.58 billion (this includes the State's pension liability). Alaska has nine categories of debt; each debt category has unique criteria reflected in Alaska State Statutes that obligate the state in dramatically different ways.

- Annual debt service may compete with or crowd out other important general fund state investments.

CWN's Fiscal Policy Study Group focused its attention on the largest components of general fund spending on state debt. This focus is where Alaskans can make a huge difference. The study group reviewed all types of state debt and received briefings on, or by, the entities that generate state debt. All state debt must be authorized by law and by resolution of the legal entity empowered to issue the obligation.

The two largest drivers of the State of Alaska's general fund debt are:

1. Department of Education & Early Development (DEED) – State Debt Reimbursement Program (SDRP) (bond debt reimbursement for school construction)/ Department of Transportation (DOT) – Transportation and Infrastructure Debt Service Reimbursement Authorization (TIDSRA) (for harbor and energy projects) *Note – state funding for both of these programs was reduced in fiscal year 2020, 50% for the SDRP and 100% for the TIDSRA by veto.

2. State of Alaska's Unfunded Actuarial Assumed Liability (UAAL) - Alaska's Unfunded Retirement Liability - Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS)

During the group's discussion, the following questions, concerns, and issues were raised regarding the DEED SDRP:

- The local entities only get matching money if they use debt that is at least 10 years in amortization at a level rate. Are there more efficient ways to provide for school construction?

- In the past, municipal school bond issues gain support by highlighting that the State will pay a portion of the debt service. This may result in projects being approved that might otherwise fail.

- How might, the availability and level of state matching funds drive administrative overhead, planning, design, engineering, procurement, and construction costs?

- Without a State funded SDRP would the same designs be considered?

- Could the state debt reimbursement program partnership with local communities be redesigned to better ensure that school facilities are designed, constructed, and appropriately maintained to sustain the education mission of student learning and growth?

- What should the state do to ensure school facilities life cycles are efficient, affordable, and support the core mission of student learning?

- How do school districts perform life cycle costing analysis when considering the design, weatherization, lighting, or other features in school construction taking into account current and future facilities capacity, condition and education mission? Does the state or school districts conduct independent outside audits to ensure their life cycle costing analysis is consistent with best practice and aligned on the education mission?

- Is there a better, more efficient, common sense way to design, prioritize, and fund school construction, component replacement and refurbishment/deferred maintenance?

- Does state investment in this program lead to better student outcomes? How can the state investment be better aligned to ensure it supports student learning and growth?

- How does the state evaluate equity between remote, rural, and urban Alaska school construction funding? How often does the state independently audit “equitable” distribution of capital funding support and compare that to national benchmarks?

- Does the state have the appropriate controls in place to ensure that refinancing of local school bond debt is timely and saves state and local costs?

- Who controls the cost of general fund debt service: incorporated cities, boroughs, and municipalities or the state?