

**School Construction and Major Maintenance:
\$212 Million in General Obligation Bonds for 2 Years of Projects
(HB 363, SB 259)**

- Eliminating the backlog of rural and urban school construction and major maintenance projects has been a high priority for the Knowles/Ulmer Administration. This ballot measure is the next step in an ongoing effort to secure funding for the \$641 million in projects on the Department of Education and Early Development priority lists.
- The current school construction list has 57 projects with a state-funded share of \$490 million. The major maintenance list has 115 projects with a state share of \$151 million. This year, all districts with eligible projects participated in the project ranking process.
- The Governor envisions funding all projects on the two lists over the next six years. One third would be authorized by the voters in the \$212 million general obligation bond proposal on the 2002 ballot with additional GO bonds in about \$200 million increments offered for voter approval in each of the following two statewide general elections. The 2002 legislation would set an important precedent and pattern for addressing the backlog in predictable stages so communities and school districts know when they could expect their projects to be funded.
- According to Department of Education and Early Development (DEED) School Finance staff, experience has shown that funding the priority lists at a rate of about \$100 million per year is optimum. Too little annual funding results in higher costs as the backlogs grow. Too much money going out in a single year can result in higher bids and more out-of-state contractors. Working off both priority lists utilizes a combination of larger scale building construction firms for new construction and smaller businesses such as roofing and plumbing contractors for deferred maintenance.
- The bill would appropriate \$101 million in FY2003 and \$109 million in FY2004. Up to \$2 million would be allocated to State Bond Committee for the cost of issuing the bonds. Debt service of \$10.1 million would begin in FY2004, increasing to \$21 million in FY2005.
- A steady flow of funds into school construction and maintenance provides certainty for districts and inspires confidence in the DEED priority list process. Under this proposal, the priority lists would be frozen for 2 years to ensure that all selected projects get completely funded and are not bumped from their place on the list. Districts would submit their projects for ranking again in 2003 to be funded by GO bonds in the following general election year and so on.

Understanding the FY2003 Budget - School Construction and Major Maintenance

- The current interest rate environment offers very attractive rates of less than 5 % for GO bonds, making it an ideal time to issue new debt. In recent years, school construction funding has come from a combination of new or unique funding sources for bonds (e.g., AHFC dividends and tobacco settlement) and tobacco tax receipts for school debt reimbursement in urban districts. There are no new revenue sources on the horizon, so debt service in this proposal will be paid from general funds.
- The grant funding approach proposed in this legislation improves the fiscal picture for communities because they only have to come up with their local share of the project cost. By contrast, school debt reimbursement programs require them to bond for the full project amount, using more of their local debt capacity than is actually needed for their share of the total cost. It is also more expensive than using GO bonds backed by the full faith and credit of the State of Alaska because the state has a better credit rating than municipalities and can issue debt at lower cost.

For a detailed listing of all projects, click [here](#).