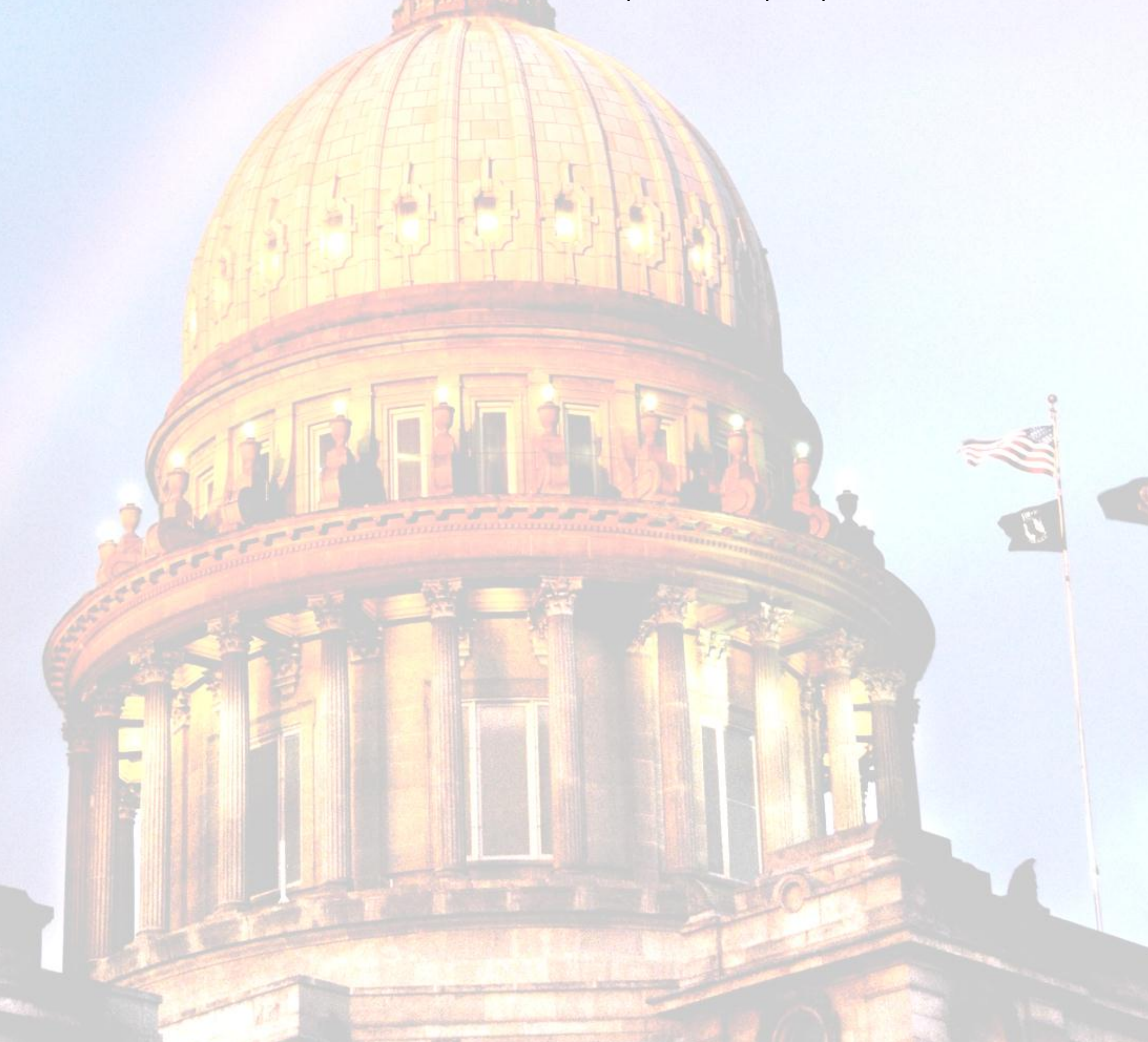

JFAC COMMITTEE MEETING MINUTES

1/25/13

The hearing was held in Room C310, Statehouse, commencing at 8:00 a.m. and concluding at 9:55 a.m. with Chairman Bell presiding.

Roll Call:
Senators: Cameron, Keough, Mortimer, Vick, Nuxoll, Johnson, Bayer, Thayn, Schmidt, Lacey

Representatives: Bell, Bolz, Eskridge, Thompson, Gibbs, Stevenson, Barron (for Miller), Youngblood, Ringo, King

Absent/Excused: None

Staff present: Headlee, Tatro

<u>IDAHO STATE BOARD OF EDUCATION</u>

<u>Office of the State Board of Education</u>

Presenter: Dr. Mike Rush, Executive Director

- Idaho Constitution Art. IX, Sec. 2
  - The general supervision of the state educational institutions and public school system of the state of Idaho
- Organization chart
- Staff to the Board
  - Governance, oversight coordination, policy-oriented agendas, strategic planning and Performance data
- Impact of education on income
- Goal of 60% of Idaho's citizens aged 25-34 will have at least a 1-year postsecondary credential by 2020
- Complete College Idaho
  - Strengthen the pipeline
  - Transform remediation
  - Structure for success
  - Reward progress and completion
  - Leverage partnerships
- Performance-based funding: $3.4 million
  - 60% degrees awarded
  - 40% cost per weighted credit and cost per headcount
- FY 2014 budget request
  - Maintenance items
    - Benefit costs: $18,800

        - Replacement items: $10,400
        - Reduction in overhead fees: ($13,100)
- FY 2014 line item for director of institutional research
    - Data quality and analytics
    - $107,000 (PC & OE)
- Data driven decisions
    - National student clearinghouse
    - Multi-state data exchange (WICHE)
    - FY 2012 U.S. Department of Education statewide longitudinal data system (SLDS) grant
    - P-20 Workforce statewide longitudinal data system development
    - High school feedback reports
    - Data Management Council oversight
    - Accountability Committee
- Class of 2005 postsecondary enrollment and progress
- OSBE staff; size and cost comparison
    - Doing more with less: 21.08 staff serving 102,047 students
    - Average staff size for similar state governing boards: 43
- FY 2014 line item: Federal grant: Statewide longitudinal data system expansion
    - Link educational data to workforce outcomes
    - $1,000,000
    - 2-year spending authority
- FY 2014 line item: Transfer Scholarship Program Manager FTP
    - Move 1 FTP from OSBE budget to Scholarships & Grants Program budget
- FY 2014 line item: Governor's recommendation
    - Transfer funds for WICHE membership dues from Health Education Programs budget to OSBE budget: $131,000
- FY 2014 line item:
    - Scholarship Program Manager
    - Transfer 1 FTP from the Board office to Special Programs
    - $58,100 in ongoing General Funds
- Reasons for scholarship review
    - Effective use of state scholarship funds
    - Efficiency in administration
    - Board's 60% goal
    - Office of Performance Evaluations' report
- FY 2014 line: GEAR UP federal spending authority: $405,600
- Self-funded tenant improvements: Board Office space
- Requested and received $125,000 in one-time spending authority
- Remodels

<u>Division of Professional and Technical Education</u>

Presenter: Dr. Todd Schwartz, PhD, Administrator

- Real skills, real career, real world
- Governance and mission
- State Board Goals
  - A well-educated citizenry
  - Critical thinking and innovation
  - Effective and efficient delivery
- Leadership, advocacy and technical assistance
- Secondary programs
  - 611 programs in comprehensive high schools
  - 94 high-end programs in 12 Professional-Technical Schools
  - Transition rate: PTE, 64%
  - Overall Idaho: 49
  - Hands-on applied learning
  - Workplace readiness and leadership skills
- Postsecondary programs
  - 8,830 students in 165 certificate and degree programs
  - Workforce Training Network
    - Apprenticeship
    - Custom training
    - Workforce training
    - 42,119 students
  - College of Western Idaho: Micron Center for Professional & Technical Education
  - College of Southern Idaho: Applied Technology and Innovation Center
- Related programs and services
  - Certified Public Manager Program
  - HealthMatters (Idaho Wellness Program)
  - Emergency Services Training
  - Guidance support for counselors
  - Teacher preparation, development, and certification
  - Idaho STAR Motorcycle Safety program
  - Collaboration: ABE Bridge programs
    - Student success intervention projects
    - Bridge ABE skill levels to postsecondary success
- FY 2013 appropriation: $58,074,200
  - General Funds, $48,249,600; Other funds, $1,166,500; Federal funds, $8,648,100
- FY 2014 critical needs
  - Agency IT infrastructure: $43,700
  - Postsecondary replacement OE and instructional equipment: $136,400
  - Nondiscretionary adjustment-growth: $472,500
  - Lump sum authority for postsecondary program
  - Carryover authority

<u>Idaho Public Television</u>

Presenter: Peter W, Morrill, General Manager

- Mission-educate, inform and inspire
- Program structure
  - Statewide delivery system
    - Equipment infrastructure
    - Only statewide broadcast system
    - Partners with the Homeland Security for digital delivery systems across the state
    - Delivery of governmental services
  - Education content
    - National programming
    - Local program creation
    - Online and mobile resources
    - Community outreach and fundraising
- Content and services
  - Most viewed PBS station
  - Critical success factor
  - Award winning services
  - Exceed peers
- Broadcast vs. online
  - Video viewing is still mostly on television
    - Broadcast television: 34.8 hours per week
    - Online: .9 hours per week
- Partnerships
  - Idaho Universities – student training and on-air courses
  - K-12 overnight programming
  - Grade school resources for teachers
- National & local productions
- Idaho in session
  - Partnership with Legislative Services and Department of Administration
  - Video streaming
    - Supreme Court
    - Capitol of Light
- Highly complex delivery system
  - 5 transmitters
  - 47 repeaters
  - Studio in each region
- Efficient delivery and operations
- Regular maintenance challenges- damaged equipment, aging computer system
- Governor's budget recommendation: 2.6% increase
  - Phone/voicemail system: $80,000

- Digital program data storage: $100,000
- Utility vehicle: $32,400

- ❖ Alternative funding sources
  - Cannot air commercials
  - Cannot charge cable and satellite for programming
  - Federal competitive equipment programs defunded
- ❖ Areas of risk
  - Capital replacement, repairs and maintenance
  - Normal equipment replacement
  - Complete digital transition
  - Removal of analog equipment

<u>Report on Deferred Maintenance Information Paper for Colleges and Universities</u>

Presenter: Paul Headlee, Principal, Budget & Policy Analysis

Deferred Maintenance Information Paper

Provided by the Budget & Policy Analysis Division of the Legislative Services Office
January 25, 2013

Summary

This information paper was requested by the Co-Chairs of the Joint Finance-Appropriations Committee in June of 2012 to provide information on deferred maintenance at Boise State University (BSU), Idaho State University (ISU), the University of Idaho (UI) and Lewis-Clark State College (LCSC). The Co-Chairs also requested that our office review revenue options that could address those maintenance needs.

To address this request, we asked the four institutions to define and quantify their deferred maintenance. Collectively, the institutions report a range of $674 million to $764 million in deferred maintenance needs; however, each institution defines and calculates “deferred” maintenance differently, making comparisons among the institutions difficult. Despite these differences, each institution’s annual maintenance and repair needs greatly exceed available funding from state or institution resources.

To better assess immediate maintenance needs based on a standardized process, we reviewed the institutions’ annual requests for alterations and repair (A&R) projects made to the Permanent Building Fund via the Division of Public Works. The four institutions have requested $53.6 million in fiscal year 2014 for 143 maintenance projects that include such things as roof replacements and landscape improvements, life-safety concerns, and complete building renovations. Historically, each of the three universities has received $2.5 million to $3 million per year from the Permanent Building Fund and LCSC has received about $500,000 to $600,000 per year.

Our office also reviewed the revenue generated from facility fees that are charged to students by each institution. We learned that most of that annual revenue is used for debt payment on bonds or notes issued by the individual institutions, with smaller amounts used for facility maintenance. Current institution principal debt on bonds and notes totaled nearly $470 million and ranged from $6.1 million at LCSC to $237 million at BSU. To put this debt into perspective, we reviewed other major debt sources within the state and found that there is additional statewide debt that totals $1.78 billion. This debt is monitored by the Credit Rating Enhancement Committee.

The Number, Size, and Age of Facilities Varies by Institution

To begin our research, our office requested that all four institutions of higher education (BSU, ISU, UI, and LCSC) submit information on the number, size, and age of their facilities. This information varies by institution as shown in Table 1. For instance, the facilities on BSU's campus average 37 years old and are comparatively younger than those at LCSC, which average 56 years old.

Table 1. Facility Information at Idaho's Four-Year Institutions of Higher Education

Institution	Initial Founding	Number of Facilities[a]	Approximate Square Feet	Average Facility Age	Oldest Facility	Newest Facility
BSU	1932	185	5.1 million	37	1914	2012
ISU	1901	87	4.5 million	44	1916	2009
UI[b]	1889	228	4.1 million	42	1901	2012
LCSC	1893	44	.75 million	56	1883	2009

[a] Only includes facilities that are considered owned, not leased. Each institution defines a facility differently; BSU for example considers each softball field dugout as a separate facility.

[b] Only includes facilities on the main University of Idaho campus.

Deferred Maintenance Defined Differently at Each Institution

We also requested that the institutions describe how they defined and quantified their deferred maintenance. Collectively, the institutions reported a range of $674 million to $764 million in deferred maintenance needs. However, we found that each institution defined and quantified deferred maintenance differently, making comparisons difficult. For example, ISU defined deferred maintenance to include projected maintenance needs up to 10 years into the future. Boise State and UI hired consultants to assist with determining maintenance needs, while ISU and LCSC used in-house resources. Below are deferred maintenance descriptions based on responses submitted by the institutions.

BSU: Boise State University commissioned an outside consultant to conduct a facilities condition assessment. The university used this assessment to prioritize campus maintenance, repair, and replacement schedules, and to develop funding requests to the Permanent Building Fund Advisory Council. The study encompassed all campus facilities, including academic, auxiliary space, parking lots, sidewalks, water mains, fuel tanks, etc. The assessment identified categories of deferred maintenance problems including life-safety, beyond useful life, building code, fire safety, accessibility, reliability and a few others.[1] The university has listed its total maintenance related needs at $147.9 million as determined by the assessment and the majority of those needs were categorized as beyond useful life.

ISU: Idaho State University defined its deferred maintenance as work required now and in the next ten years to keep the buildings and grounds in serviceable condition. The costs of analyzing systems and discovering deficiencies specific to life-safety, building systems, various studies, and needs due to past changes in building use were identified. Remediation of those deficiencies was not included. The university has indicated its total maintenance needs over the next 10 years at $352.2 million, of which $24 million is indicated as needed within one year.

UI: The University of Idaho uses various metrics to monitor its maintenance needs, including the best practice standard of annually spending 1.5% of the current replacement value of the facility. The university uses their in-house staff and outside consultants to identify the most important maintenance needs and has compiled a list of over 200 projects. The university staff indicated total maintenance costs to be nearly $150 million, which includes $14.1 million for immediate priorities. However, the consulting firm hired by UI concluded that the university would need $240 million for comprehensive maintenance needs.

LCSC: Lewis-Clark State College identifies the most pressing maintenance needs and then estimates costs for those specific projects. The college relies on the state's Division of Public Works specialists and commercial contractors to help develop project cost estimates and identify urgent repairs. The college does not have an in-house architecture and engineering staff, nor have they hired outside consultants to provide support for deferred maintenance efforts. The college reports its total maintenance needs at $24.3 million, but indicates the current list of high priority projects exceeds the funding levels likely to be available from state funds.

The Institutions' Requests for Permanent Building Fund Alteration & Repair Moneys Exceed $53 Million for FY 2014

To better assess immediate maintenance needs based on a standardized process, we reviewed the institutions' past three years of funding requests to the Permanent Building Fund Advisory Council (PBFAC) for alteration and repair (A&R) project funds. Idaho Code and PBFAC policy allows A&R moneys to be used for the construction, enhancement, improvement, modification, or maintenance of state facilities that are needed to improve life-safety, enhance programs, and maintain the useful life of the facility.[2] The fund receives the majority of its revenue from lottery distributions and cigarette tax moneys, averaging approximately $47 million per year. The vast majority of the money is utilized annually, though the fund does have a current balance of

[1] Boise State University also uses a facilities condition index (FCI) to assess its buildings.

[2] Section 57-1108, Idaho Code, and Permanent Building Fund Advisory Council policy on the use of Permanent Building Fund moneys (11-1-07).

approximately $4.3 million, of which $3 million is necessary contingency for outstanding construction projects.

The FY 2014 requests for A&R moneys from the four institutions totaled $53.65 million, as shown in Table 2. This request has grown by $18.7 million during the past two years, which is an increase of 53%. The four institutions typically account for more than 50% of the total statewide A&R requests each year. The FY 2014 request comprises 143 maintenance projects, ranging from roof replacements and landscape improvements, to life-safety concerns and complete building renovations. Historically each of the three universities has received $2.5 million to $3 million per year from the Permanent Building Fund and LCSC has received about $500,000 to $600,000 per year. The total amounts requested for A&R moneys for the past three years highlight an increasing demand for financial support.

Table 2. Requests to the Permanent Building Fund Advisory Council for Alterations & Repair Funds

	FY 2012	FY 2013	FY 2014
BSU	11,570,120	21,260,000	26,469,000
ISU	7,008,713	6,479,603	11,547,602
UI	14,300,000	14,018,000	14,339,900
LCSC	2,101,000	879,000	1,295,000
Institution Total	**$34,979,833**	**$42,636,603**	**$53,651,502**
All other state agency requests	25,298,490	37,866,385	30,997,364
Grant Total	**$60,278,323**	**$80,502,988**	**$84,648,866**

Facility Fee Revenue Provides Minimal Relief for Maintenance Needs

We also reviewed the capacity of the institutions to address facility maintenance with revenue raised through facility fees charged to students. Table 3 shows the facility fees charged by each institution in FY 2012, the amount of revenue generated by those fees, and the percentage of the fee revenue applied directly to construction or bond debt related to construction; maintenance and repairs; other needs (such as land acquisition); or placed into reserves.

As table 3 shows, the institutions have used most of these revenues for construction or to address debt service of bonds issued by the institutions under the approval of the State Board of Education.[3] The debts issued by this authority are obligations of the institution and not of the State of Idaho. According to the Office of the State Board of Education, using facility fee revenue for debt service is consistent with the intent of the fees approved by the Board.

[3] Authority to issue bonds is provided in Chapter 38, Title 33, Idaho Code.

Table 3. FY 2012 Facility Fee Revenue and Uses

Institution	Facility Fee per Student	Revenue Generated	% for Construction or Bond Debt	% for Maintenance, Repairs, or Equipment	% Placed in Reserve
BSU[a]	$1,010	$16,833,300	96.4%	3.6%	
ISU	$486	$4,204,825	65.8%	9.3%	25%
UI	$790.50	$7,689,305	100%		
LCSC	$468	$1,134,707	97.2%	2.8%	

[a] Represents a three-year average (FY 2010, FY 2011, and FY 2012).

Institutions Have $470 Million of Principal Indebtedness

The State Board of Education has the authority to approve bonding for debt by the institutions to include ". . . buildings, structures, improvements, and equipment of every kind . . ."[4] As a result of this authority, principal debt at the four institutions is nearing $470 million with payments being made each year until 2042. If the institutions do not modify their current debt, interest would add another $328 million to the indebtedness. Table 4 shows the breakdown of institution debt and if no debt is modified, $0.41 of every dollar will be paid on interest.

Table 4. Bond and Note Indebtedness by Payment Type and Institution

		Payment Type		Principal Amount by Institution			
Maturity Year	TOTAL DEBT ($)	Principal	Interest	BSU	ISU	UI	LCSC[a]
2013	$40,479,196	$18,250,573	$22,228,623	$6,725,000	$4,625,567	$6,127,006	$773,000
2014	43,238,703	21,862,846	21,375,857	7,040,000	4,846,638	6,340,945	3,635,263
2015	40,118,578	19,749,097	20,369,481	7,467,000	4,914,257	6,764,474	603,366
2016	40,114,377	20,622,210	19,492,167	7,889,000	5,131,488	6,983,147	618,575
2017	36,230,649	17,656,037	18,574,612	8,122,000	4,720,557	4,337,939	475,541
2018-2022	166,107,877	85,647,976	80,459,901	44,985,000	23,695,000	16,967,976	0
2023-2027	134,107,197	72,590,000	61,517,197	39,335,000	12,940,000	20,315,000	0
2028-2032	114,530,156	68,790,000	45,740,156	46,880,000	4,195,000	17,715,000	0
2033-2037	107,861,377	79,540,000	28,321,377	58,370,000	670,000	20,500,000	0
2038-2042	75,469,101	65,225,000	10,244,101	10,180,000	0	55,045,000	0
TOTAL	**$798,257,211**	**$469,933,739**	**$328,323,472**	**$236,993,000**	**$65,738,507**	**$161,096,487**	**$6,105,745**

Source: Debt information is from the 2012 audited annual financial statements for each institution.

[a] Lewis-Clark State College debt is comprised solely of short-term notes.

The State Board of Education reviews each institution's debt burden ratio measured by the institution's debt service (principal and interest) as a percentage of its operating

[4] Section 33-3802, Idaho Code.

budget. The board has set 8% as an informal debt ceiling. The institutions' current debt burden ratios are as follows: BSU, 5.91%; ISU, 3.7%; UI, 3.84%; and LCSC, 2.06%.

Credit Rating Enhancement Committee Monitors State Indebtedness

To put the institutions' debt into perspective, we reviewed the other major debt sources within the state. We found that statewide there is an additional $1.78 billion of debt, or nearly four times the amount of debt issued by the four-year institutions. Idaho has four primary methods of establishing debt for its various entities. For state government facilities, the primary method of financing comes from the Idaho State Building Authority.

- **The Idaho State Building Authority (ISBA)** - Established to "provide for a fully adequate supply of governmental facilities at costs that state government can afford . . . for the purpose of constructing and operating such facilities to meet the needs of the state government, and to provide for predevelopment costs, temporary financing, land development expenses, construction and operation of governmental facilities for rental to state government." As of October 2012, current outstanding debt totaled $185 million (plus $76 million in interest).

  There is no statutory limit on bonding through the ISBA, except that all projects to be funded by the ISBA need legislative approval through a concurrent resolution, with projects specifically defined in the bill.[5] According to staff at the ISBA, the state could incur as much as $500 million of debt without jeopardizing its bond rating.

- **Idaho State Bond Bank Authority** - Allows municipalities to apply for a loan with the state with the goal of providing funds for infrastructure needs and access to the capital markets at competitive interest rates using the state's credit rating and state funds used as additional security of repayment.
- **School Bond Guaranty** - The Idaho School Bond Guaranty Act was created for the purpose of establishing a default avoidance program for voter-approved school bonds issued by Idaho public school districts.
- **Idaho Housing & Finance Association** - Issues 70% of the bonds in Idaho, including mortgage revenue bonds, nonprofit facilities bonds, GARVEE bonds (a debt financing mechanism for highway construction projects), and economic development bonds. The Idaho Housing & Finance Association is completely self-supporting and uses no state tax dollars in its operations. As of October 2012, the current outstanding principal was approximately $2.13 billion, which includes $596 million in GARVEE bond debt.

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[5] The ISBA is not subject to the bonding limitations outlined in Article 8, Section 1 of the Idaho Constitution. Their bonds are not debts of the state; rather the state's obligation is only to pay one year of "rent" or overhead/administrative fees to the ISBA. The debt holder is the individual who buys the bonds and is the one who takes the risk.

In order to better monitor the statewide debt, credit rating entities requested that Idaho create a debt oversight committee and the Legislature responded in 2005 with the creation of the Credit Rating Enhancement Committee (CREC). The CREC oversees the aforementioned funding authorities and advises the Legislature and Governor regarding policies and actions to preserve Idaho's credit rating, and to preserve the future availability of low cost capital financing. The CREC publishes an annual report on net debt capacity. Table 5 shows the amount of principal debt authorized by the state, various municipalities, and school districts for which they are liable. However, according to the office of the State Treasurer, in relation to bonds issued through the Bond Bank Authority and the School Bond Guarantee Program, if a school district or municipality were to default on its loan, the state would temporarily pay the borrowed amount until the school district or municipality regains adequate financial stability. The state has the ability to intercept revenues that would go to the school district or municipality to recover any amounts that the state pays on behalf of the school district or municipality.

Table 5. State of Idaho Principal Debt Obligations

	2010	2011	2012
Idaho Bond Bank Authority	$200,900,000	$234,395,000	$271,165,000
School Bond Guarantee	$642,245,000	$617,340,000	$703,897,143
Idaho Housing & Finance Assn. (GARVEE only)	$563,890,000	$542,960,000	$596,070,000
Idaho State Building Authority	$257,680,000	$234,542,385	$208,665,333
TOTAL	$1,664,715,000	$1,629,237,385	$1,779,797,476

Note: The outstanding State Guaranteed and State Authority/Association Debt Obligations of July 1 for 2010, 2011, and 2012. Fluctuations are normal and will occur with refinancing, issuing and refunding of debt. The state issues about $500 million in tax anticipation notes (TAN), but the notes are paid off by the end of the fiscal year.

ADJOURNED

Maxine Bell, Chairman

Kathryn Yost, Secretary