

**ALASKA STATE LEGISLATURE  
HOUSE COMMUNITY AND REGIONAL AFFAIRS  
STANDING COMMITTEE**

March 20, 2001  
8:07 a.m.

**MEMBERS PRESENT**

Representative Kevin Meyer, Co-Chair  
Representative Carl Morgan, Co-Chair  
Representative Drew Scalzi  
Representative Lisa Murkowski  
Representative Gretchen Guess  
Representative Beth Kerttula

**MEMBERS ABSENT**

Representative Andrew Halcro

**COMMITTEE CALENDAR**

HOUSE BILL NO. 135

"An Act relating to municipal fees for certain police protection services."

- MOVED CSHB 135(CRA) OUT OF COMMITTEE

HOUSE BILL NO. 145

"An Act making a civil remedy available to the state or a municipality against persons who make false claims for, or certain misrepresentations regarding, state or municipal money or other property; and providing for an effective date."

- MOVED HB 145 OUT OF COMMITTEE

HOUSE BILL NO. 20

"An Act relating to state aid to municipalities and certain other recipients, and for the village public safety officer program; relating to municipal dividends; relating to the public safety foundation program; and providing for an effective date."

- MOVED CSHB 20(CRA) OUT OF COMMITTEE

**PREVIOUS ACTION**

BILL: HB 135

SHORT TITLE:MUNICIPAL FEES: POLICE & FIRE SERVICES

SPONSOR(S): REPRESENTATIVE(S)GUESS

Jrn-Date	Jrn-Page		Action
02/21/01	0386	(H)	READ THE FIRST TIME - REFERRALS
02/21/01	0386	(H)	CRA
02/21/01	0387	(H)	REFERRED TO COMMUNITY & REGIONAL AFFAIR
03/15/01		(H)	CRA AT 8:00 AM CAPITOL 124
03/15/01		(H)	Heard & Held
03/15/01		(H)	MINUTE(CRA)
03/20/01		(H)	CRA AT 8:00 AM CAPITOL 124

BILL: HB 145

SHORT TITLE:FALSE CLAIMS AGAINST STATE OR  
SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

Jrn-Date	Jrn-Page		Action
02/23/01	0416	(H)	READ THE FIRST TIME - REFERRALS
02/23/01	0416	(H)	CRA, JUD
02/23/01	0416	(H)	FN1: ZERO(LAW)
02/23/01	0416	(H)	GOVERNOR'S TRANSMITTAL LETTER
03/15/01		(H)	CRA AT 8:00 AM CAPITOL 124
03/15/01		(H)	Scheduled But Not Heard
03/20/01		(H)	CRA AT 8:00 AM CAPITOL 124

BILL: HB 20

SHORT TITLE:AID TO MUNICIPALITIES AND OTHERS  
SPONSOR(S): REPRESENTATIVE(S)MOSES

Jrn-Date	Jrn-Page		Action
01/08/01	0029	(H)	PREFILE RELEASED 12/29/00
01/08/01	0029	(H)	READ THE FIRST TIME - REFERRALS
01/08/01	0029	(H)	CRA, STA, FIN
01/08/01	0029	(H)	REFERRED TO CRA
03/20/01		(H)	CRA AT 8:00 AM CAPITOL 124

**WITNESS REGISTER**

JIM BALDWIN, Assistant Attorney General  
Civil Division (Juneau)  
Department of Law  
PO Box 110300  
Juneau, Alaska 99811-0300

POSITION STATEMENT: Requested that the committee favorably  
forward HB 145 to its next committee of referral.

REPRESENTATIVE CARL MOSES  
Alaska State Legislature  
Capitol Building, Room 500  
Juneau, Alaska 99801

POSITION STATEMENT: Testified as the sponsor of HB 20.

TIM BENINTENDI, Staff  
to Representative Moses  
Alaska State Legislature  
Capitol Building, Room 500  
Juneau, Alaska 99801

POSITION STATEMENT: Provided additional information on HB 20.

GREGG HANSON, Member  
Unalaska City Council  
PO Box 920381  
Dutch Harbor, Alaska

POSITION STATEMENT: Testified in support of HB 20.

KEVIN RITCHIE, Executive Director  
Alaska Municipal League  
217 Second Street  
Juneau, Alaska 999801

POSITION STATEMENT: Testified in support of HB 20.

JIM KELLY, Director  
Communications  
Alaska Permanent Fund Corporation  
Department of Revenue  
PO Box 25500  
Juneau, Alaska 99802-5500

POSITION STATEMENT: Testified on HB 20.

#### **ACTION NARRATIVE**

TAPE 01-14, SIDE A  
Number 0001

CO-CHAIR KEVIN MEYER called the House Community and Regional Affairs Standing Committee meeting to order at 8:07 a.m. Representatives Morgan, Meyer, Scalzi, Murkowski, Guess, and Kerttula were present at the call to order.

HB 135-MUNICIPAL FEES: POLICE & FIRE SERVICES

Number 0076

CO-CHAIR MEYER announced that the first order of business would be HOUSE BILL NO. 135, "An Act relating to municipal fees for certain police protection services." [Before the committee was CSHB 135, version LS0421\F, Cook, 3/9/01, as amended.]

REPRESENTATIVE GUESS, testifying as sponsor of HB 135, reminded the committee that at the last meeting a conceptual amendment was adopted that would insert language ensuring actual notice and consideration for appropriate corrective action in the ordinance. She pointed out that the committee packet should include an amendment that is based on the previously adopted conceptual amendment, this amendment was developed with the help of her office, Anchorage Assemblyman Tesche, and Tam Cook, Director, Legal and Research Services, Legislative Affairs Agency. The amendment is as follows:

Page 1, line 13, following "AS 18.66.990.":

Insert "An ordinance enacted under this section shall require actual notice to the property owner of police contacts and a warning that failure to take appropriate corrective action may result in the imposition of a fee. The ordinance shall also define "appropriate corrective action" and provide that the property owner is not liable for the fee if that action is promptly taken.

[Original punctuation provided.]

Number 0199

REPRESENTATIVE MURKOWSKI referred to the "warning" included in the amendment. She noted her appreciation of not being too specific so that the municipality can have enough flexibility to structure it for their needs. She related her understanding of the amendment as follows: "All we're saying is you've got to have actual notice, we don't care how it's delivered ..., and a warning and then we're leaving it up to the municipalities to define what appropriate corrective action can be."

REPRESENTATIVE GUESS agreed with Representative Murkowski's understanding. She also agreed with Representative Murkowski that "promptly" is being left for the municipality to define.

Number 0290

REPRESENTATIVE MURKOWSKI asked if this language addresses Representative Kerttula's concern regarding evictions.

REPRESENTATIVE KERTTULA remarked, "It probably goes further than that because it would probably allow even things less than actual eviction." She indicated that the language seems to address her concerns.

Number 0381

REPRESENTATIVE MURKOWSKI moved to report CSHB 135, version LS0421\F, Cook, 3/9/01, out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, CSHB 135(CRA) was reported from the House Community and Regional Affairs Standing Committee.

The committee took a brief at-ease at 8:12 a.m. to 8:13 a.m. in order to pass the gavel to Co-Chair Morgan.

HB 145-FALSE CLAIMS AGAINST STATE OR MUNICIPALIT

CO-CHAIR MORGAN announced that the next order of business would be HOUSE BILL NO. 145, "An Act making a civil remedy available to the state or a municipality against persons who make false claims for, or certain misrepresentations regarding, state or municipal money or other property; and providing for an effective date."

JIM BALDWIN, Assistant Attorney General, Civil Division (Juneau), Department of Law, informed the committee that this bill was before the committee in the Twenty-First Legislature as HB 425. House Bill 425 didn't pass simply because it was in the process too late. He explained that HB 145 is the result of [the department's] efforts to prosecute a claim against a major financial institution jointly with several municipalities in the state. Mr. Baldwin said, "While this bill may not aid that litigation, it came to light that we need something like this to update our laws, to give us better tools in enforcing the civil rights and remedies of municipal and state government when there has been a misrepresentation or a false or fraudulent claim presented against the state."

MR. BALDWIN informed the committee that the current law, AS 37.10.090, is skeletal and dates back to territorial days. Basically, this statute provides a right of action by the state or a municipality if money has been falsely paid or illegally diverted. The statute also includes provisions regarding the

state taking over the prosecution on behalf of municipalities. This has been utilized infrequently, if at all. Therefore, the department believes there is the need to update the statutes with a more detailed false claim statute. California [statute] was used as the model. Mr. Baldwin related his belief that HB 145 was referred to this committee because of the provisions relating to the cooperation between state and municipal governments when there may claims that have both state and municipal involvement. He informed the committee that cooperation between the state and the municipalities in the Bank of America case has been extremely good, although a rather involved process was followed in regard to how "we were going to conduct ourselves and finance our activities." This bill, HB 145, would resolve some of those issues, such as who goes first.

Number 0723

MR. BALDWIN emphasized that, from the Department of Law's perspective, the bill provides a fairly potent remedy from a civil context in that it would potentially impose treble damages against a wrongdoer. Furthermore, the bill would establish easy methods of proof [by] following a criminal prosecution for fraud or misrepresentation. Our statute lacks those modern improvements. As far as Mr. Baldwin knew, there have been no questions raised by the municipalities about provisions that touch upon their powers or activities. Mr. Baldwin requested that the committee favorably forward HB 145 to its next committee of referral.

Number 0807

REPRESENTATIVE MURKOWSKI referred to page 5, subsection (c) that addresses the sharing of the costs. She inquired as to how readily such could be determined. If there is some compensation being returned to the municipality or city, could there be a fight regarding who receives what.

MR. BALDWIN replied that such a situation could potentially be the [case]. He explained that the Bank of America case involved bonds that were issued by various governments. A formula based on the amount of debt service that each entity was responsible for paying on the bonds involved was established. Therefore, costs are shared on a percentage of the debt service as compared to the whole. He said, "That's ... what we're getting at here with this kind of provision. If there's some logical way to arrive at that share, then this would be the avenue to getting there." Mr. Baldwin agreed with Representative Murkowski that

in the beginning it is difficult to determine the total amount involved. However, there could be adjustments at the conclusion [of the process].

REPRESENTATIVE MURKOWSKI related her understanding that unless there is an agreement otherwise, the share would be based on the proportion. However, determining that proportion can be problematic.

MR. BALDWIN agreed. He said, "What that does is it forces you to try to agree otherwise so that ... going in you remove the dispute." He agreed with Representative Murkowski's understanding that an agreement regarding the cost would be entered into at the time it is determined who would go first. He noted that if there is enough at stake, there is usually a way to find an agreement.

Number 1039

REPRESENTATIVE MURKOWSKI recalled hearing this legislation twice last year, once in the House Community and Regional Affairs Standing Committee and once in the House Judiciary Standing Committee. She said she believes that HB 145 is probably the same as HB 425 from last year, although she couldn't remember what [the committees] did with it last year. She expressed the need for the House Judiciary Standing Committee to review what constitutes a "reasonable time" after the discovery of a false claim as well as some other specific technical issues.

CO-CHAIR MEYER asked if Representative Murkowski recalled any concerns that arose with HB 425.

REPRESENTATIVE MURKOWSKI referred to page 2, paragraph (8), and recalled that there was a question surrounding what would constitute a reasonable amount of time. She recalled that on page 3, subsection (3)(c), there was a question regarding what would happen to an individual that did all the things listed but knew that there was probably going to be an investigation. She felt that the House Judiciary Standing Committee could find the points of discussion.

Number 1276

REPRESENTATIVE SCALZI asked if this would apply to any type of contract with a municipality.

MR. BALDWIN answered that certain things are exempt from the act. If there is a single claim, worth under \$500, that can't be aggregated with other claims, it would not be subject to this act. Therefore, this addresses the larger claims. There is also an exemption for provisions that have a statutory means for prosecuting false claims. Those provisions that are exempt would include the permanent fund dividend, employment claims, and under Title 43, the revenue and taxation code.

CO-CHAIR MEYER said that he too had thought HB 145 would apply to people who falsified their permanent fund application or their taxes, or even the senior citizen property exemption. However, he understood Mr. Baldwin to mean that those would be exempt from this law.

MR. BALDWIN reiterated that the permanent fund dividend is specifically exempted. He clarified, "If it's not specifically exempted, it could be prosecuted under this law." He specified that any civil penalty prosecuted under AS 43, the revenue and taxation code, would be exempt. Also exempt are public assistance, AS 47.25; the Alaska Temporary Assistance Program (ATAP), AS 47.27; worker's compensation, AS 23.30, and the Employment Security Act, AS 23.20. Those all have statutes that punish people who make false claims and thus there was no desire to change the statutory scheme.

Number 1470

REPRESENTATIVE MURKOWSKI moved to report HB 145 out of committee with individual recommendations and the accompanying zero fiscal note. There being no objection, HB 145 was reported from the House Community and Regional Affairs Standing Committee.

The committee took a brief at-ease from 8:28 a.m. to 8:30 a.m.

#### HB 20-AID TO MUNICIPALITIES AND OTHERS

CO-CHAIR MORGAN announced that the next order of business would be HOUSE BILL NO. 20, "An Act relating to state aid to municipalities and certain other recipients, and for the village public safety officer program; relating to municipal dividends; relating to the public safety foundation program; and providing for an effective date."

Number 1526

REPRESENTATIVE CARL MOSES, Alaska State Legislature, testified as the sponsor of HB 20. Representative Moses began by saying that HB 20 would go far in solving the long-range fiscal plan. He informed the committee that he introduced this legislation several years ago in order to help replace the municipal revenue sharing funds that have been cut. This municipal dividend program will have little impact on the size of an individual's dividend, but will "go a long way to eliminate the scrutiny by the IRS to tax the fund." Representative Moses informed the committee that there should be a couple of minor amendments that his staff will address. He said that the effect of eliminating municipal revenue sharing has been to basically impose taxes on the local governments. Therefore, Representative Moses emphasized the need to replace revenue sharing through the proposal in HB 20. Although the proposal is limited to the amount of the surplus earnings, he felt the amount should be doubled per dividend recipient and it should not be tied to any particular service. Furthermore, how the money should be spent should be determined at the local level.

REPRESENTATIVE MURKOWSKI related her understanding that HB 20 refers to calculating the [municipal dividend program] based on \$150 per dividend. However, the committee has received information indicating a proposal that is based on \$250 per dividend. Therefore, she asked if Representative Moses was running two proposals at once.

REPRESENTATIVE MOSES said that the Alaska Municipal League (AML) will probably speak to the \$250 proposal.

Number 1721

REPRESENTATIVE MURKOWSKI related her understanding of how the public safety foundation program would work. She understood that there is a set amount for road maintenance, for example, although within each component there is a provision stating that the municipality can use an amount not exceeding 55 percent of the entitlement for education purposes. She inquired as to why education was treated that way.

TIM BENINTENDI, Staff to Representative Moses, Alaska State Legislature, remarked that HB 20 is the result of an evolutionary process that occurred in the Twenty-First Legislature. In that process, some communities expressed the desire to have an allocation for education purposes, which the community would determine. Therefore, the [55 percent of the entitlement] was the mechanism used to accommodate that. In

further response to Representative Murkowski, Mr. Benintendi didn't know the reasoning behind the 55 percent because that provision surfaced in the Senate.

REPRESENTATIVE GUESS mentioned that the percentage could be related to the impact aid and the equity issue that would require staying "within that range for federal dollars." She offered to look into that.

REPRESENTATIVE MOSES, in response to Co-Chair Meyer, said that it has never been determined whether the [earnings] is taxable or not. He related his belief that [the earnings] could eventually be taxed if they aren't used for some public purpose. Representative Moses agreed with Co-Chair Meyer that HB 20 would be beneficial because [the municipal dividend program] is a public purpose.

Number 1894

REPRESENTATIVE MURKOWSKI referred to the use of the words "entitlement program." She asked if this language is used in statute; does that language put [the state] "in a bad way at any point."

MR. BENINTENDI pointed out that the language actually came from the public safety foundation, which was a popular and successful program in the 1980s. He indicated that the "entitlement" language could probably be changed without affecting the program. In further response to Representative Murkowski, Mr. Benintendi recalled that the public safety foundation was in existence for maybe ten years. In regard to the specifics of that program, he deferred to AML.

Number 1979

REPRESENTATIVE MURKOWSKI inquired as to how the money should be paid to unincorporated communities because the language [in AS 29.60.690] is somewhat confusing. She pointed out that the language says, "The department may not pay money under an entitlement to a Native village council unless the council waives immunity from suit ...." She asked how these small unincorporated communities would be handled if there is a disagreement surrounding who should receive the money.

MR. BENINTENDI pointed out that the bill provides for the Department of Law and the Department of Community & Economic Development to determine the receiving entity. He specified

that there would only be one receiving entity per community and that entity could be a tribal council. He acknowledged that "they" would have to waive immunity. He didn't envision there being many since there is a history of these programs going to nonmunicipal entities.

Number 2092

REPRESENTATIVE SCALZI stated that the municipal assistance and revenue sharing formula was partially based on what the communities tax themselves. However, page 12 of HB 20 includes, for capital projects, a 30 percent match for grants over \$5,000 and a 15 percent match for grants under \$5,000. He inquired as to why there wasn't a flat [match] regardless of the amount of the grant. He questioned whether this would encourage requests for more small grants.

MR. BENINTENDI clarified that the language refers to population figures not the dollars worth of the grant.

REPRESENTATIVE SCALZI acknowledged that and surmised that the reason a formula is used is because the smaller villages don't have the tax base.

MR. BENINTENDI replied yes. Mr. Benintendi pointed out that HB 20 does include a provision that allows some of this [municipal dividend money] to be used as a community match for capital projects under the Municipal Capital Matching Grant Program and the Unincorporated Community Matching Grant Program.

REPRESENTATIVE SCALZI related his understanding that "this is the only provision in here that has any type of municipal payment, otherwise everything is set up on ... population -- a hundred and fifty dollars per person, it doesn't matter what your taxing structure is .... I guess that's where we deviate from the current system we have, right?"

MR. BENINTENDI agreed.

Number 2227

REPRESENTATIVE GUESS inquired as to where cities would fall under this. She said that the health care section had generated this question because there are hospital facilities that aren't in municipalities, such as Bethel.

MR. BENINTENDI referred to page 5, Section 7, which delineates eligibility for municipalities.

REPRESENTATIVE KERTTULA requested that Mr. Benintendi lead the committee through a scenario in which a community such as Bethel, which has a hospital, would obtain its money from this [municipal dividend program].

MR. BENINTENDI referred the committee to page 9 where three different circumstances are provided. He specified, "First of all, whether it's a community-owned facility or whether it's a nonprofit and then ... there's a size differentiation whether its ten beds or more or ten beds or less. There's a per bed ... entitlement, a per hospital entitlement, or just a flat [\$]9,000 on line 11 for hospitals with less than ten beds."

MR. BENINTENDI pointed out that on page 9, lines 23-23, the bill provides for health clinics. Page 9, line 24, delineates a \$360 a bed charge for a health facility, an institution that is not set up as a hospital.

REPRESENTATIVE KERTTULA asked if there are hospitals that wouldn't be covered by this or are all hospitals in the state located in municipalities or are they all nonprofits.

MR. BENINTENDI answered that he didn't know.

Number 2400

GREGG HANSON, Member, Unalaska City Council, testified in support of HB 20. He informed the committee that he is testifying as a city council member with seven-and-a-half years experience. Over that period of time, he has followed the changes in municipal funding. Although the City of Unalaska feels that developing a long-term fiscal plan is imperative, Mr. Hanson said that he would limit his comments to the area of health and public safety.

MR. HANSON informed the committee that he has over 13 years experience with the Unalaska Volunteer Fire and Emergency Medical Service (EMS) Departments. Over the years Unalaska has been fortunate with its own tax revenues and has not had to cut its [health and public safety] services. However, he acknowledged that this is not the case with many outlying communities that are operating, due to budget cuts, with old or insufficient equipment and with a lack of training. Mr. Hanson also informed the committee that he was a recent patient in the

Unalaska system because he suffered a heart attack in Unalaska 14 months ago. He said, "Had it not been for our highly skilled clinic and EMS people, I probably would not be here today enjoying the privilege of testifying to you. I want every resident of this great state to have that level of care available to them. And this bill will help us work towards that goal."

Number 2505

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), testified in support of HB 20. He informed the committee that the bill packet should contain a handout entitled, "Invest in Communities." Mr. Ritchie thanked Representative Moses and Representative James in their efforts to bring HB 20 forward. He acknowledged that former Governor Walter Hickel developed the concept of a community dividend program. Mr. Ritchie mentioned an editorial former Governor Jay Hammond, which was printed in the Anchorage Daily News on March 7, 2001. Former Governor Hammond's editorial noted his support of a municipal dividend concept as part of the solution to Alaska's financial problems. He also informed the committee that the committee packet should also contain a letter of support [for HB 20] from the Anchorage Economic Council.

MR. RITCHIE identified the following reasons that Alaskans could view HB 20 as acceptable. This legislation creates another permanent fund dividend, a municipal dividend, which would go directly to communities and bypass the IRS. Under the current situation, local taxes will increase, individuals will receive a PFD, which - if you're paying taxes - will be taxed and sent to Washington, D.C. Taxes would still increase and the individual would pay more local taxes on the [PFD]. On the other hand, the municipal dividend would take money and place it in the services that people want to see. Therefore, the IRS would be bypassed and millions of dollars that would otherwise go to Washington, D.C., would be kept in the state. Furthermore, the municipal dividend increases the public purpose of the PFD.

MR. RITCHIE turned to the vote on the tax cap initiative, the results of which were that the vast majority of Alaskans didn't want to cap or cut their property taxes. Mr. Ritchie surmised that the result of the vote on the initiative was due to the public's support of the purposes the taxes are used for in their communities. He further related his belief that the tax cap initiative was defeated because people want good schools and health services. This legislation would provide a more

effective means to support those services in each community. He informed the committee that Representative James did a constituent survey in North Pole and Salcha. This survey said that the [legislature] would like to use part of the earnings of the PFD "in this way to support these particular services." The overwhelming majority of those in North Pole and Salcha thought that was a good idea. Mr. Ritchie felt that people supported this [municipal dividend program] because the legislation specifies how the money will be used.

Number 2741

MR. RITCHIE addressed the earlier question regarding the 55 percent entitlement for schools. He pointed out that the entitlement was generated by second class boroughs, specifically the Fairbanks North Star Borough. He explained that a borough with lots of service areas would have the money go into roads and fire, which is mainly provided through service areas, but there wouldn't be a good way to provide general tax relief or general money for services in the community. In places such as Fairbanks and Kenai, most of the money going to revenue sharing goes to the schools. Therefore, the 55 percent was used in order to approximate the amount of money that currently goes to schools from revenue sharing and thus it would not cause an increase in taxes locally. Mr. Ritchie pointed out that if a larger community dividend was generated [under the \$250 option], a separate category could be established for schools. Essentially, a \$26 or \$27 million contribution for schools could be created. Therefore, it wouldn't be necessary "to have a percentage of the other funds that would be allocated to the other services, but it could be more generally service provision and tax relief and extremely straightforward as to how the money is allocated," he said. He also pointed out that the word "entitlement" could be easily changed.

Number 2844

MR. RITCHIE said that he could provide the committee with a history of revenue sharing. He explained that the revenue sharing program began in 1972; it began much like the program proposed in HB 20. Revenue sharing provided specific money for fire protection, police, planning, and roads. In the 1980s when there was oil money, the system was thought to be complex and it was suggested that municipalities be given chunks of money. That approach worked the first couple of years. However, one didn't know where the money in this large pot went and that meant it couldn't be defended well [in the face of cuts] because

there wasn't much information regarding its use. Therefore, it was easier to justify a reduction [to that money]. The federal government used a similar revenue sharing program, which faced the same fate of being reduced year after year. Mr. Ritchie informed the committee that on the state level, municipal revenue sharing as a block grant has been reduced by about 80 percent over the past 15 years. Mr. Ritchie said, "Even though it took our members a number of years to come to grips with this issue that revenue sharing as a block grant probably wasn't going to be something that would be a permanent fixture, they have, I believe, come to a realization that both in terms of public accountability, accountability to the legislature, that there needs to be some accountability that goes along with the distribution of money."

MR. RITCHIE turned to Representative Murkowski's earlier question regarding how this money is allocated to unincorporated communities. He said that this bill attempts to be balanced since the amount of money going into unincorporated communities remains in the bill. Additionally, a fire department in an unincorporated community would still be eligible for...

TAPE 01-14, SIDE B

MR. RITCHIE continued, "...uses the methodology of the municipal capital matching grants, which was a program approved under the Hickel Administration to allocate capital matching money for capital projects to communities around the state." He pointed out that the municipal matching grants program has an allocation for unincorporated communities and small communities. This bill wouldn't change that program. With regard to specific questions regarding unincorporated communities, Mr. Ritchie deferred to Bill Rolfzen, State Revenue Sharing, Municipal Assistance, National Forest Receipts, Fish Tax; Division of Community and Business Development; Department of Community & Economic Development (DCED). In regard to whether this covers hospitals, Mr. Ritchie related his belief that this would cover all eligible hospitals in the state whether the hospital is in a municipality or not.

Number 2917

MR. RITCHIE referred to a packet of information that he had provided the committee. That information is aimed at a larger dividend. The page containing the analysis of HB 20 from the Alaska Permanent Fund Corporation illustrates that there will be no impact, under any of the scenarios, to the individual PFD in

the first two years. In the third year there will be a \$10 impact, under any of the scenarios. For example, Alaskans could receive \$250 each year in tax relief for three years for a projected \$10 decrease in the PFD in the third year. Therefore, an Alaskan would receive \$750 of tax relief and services for a projected \$10 decrease in the PFD over three years. Mr. Ritchie didn't believe that any Alaskans would pass up that deal. Over the period of 11 years, the impact remains small. Mr. Ritchie referred to a spreadsheet that was developed with the assistance of DCED. The first columns are Representative Moses' bill. That spreadsheet provides an idea of the types of allocations that would go to communities under this program. He noted that this is all based on estimates.

Number 2815

REPRESENTATIVE MURKOWSKI referred to the spreadsheet and asked, "You're just tacking on \$200 per student and then, if it's in an REAA [Rural Education Attendance Area], what [do] you do?"

MR. RITCHIE specified that this is just conjecture in regard to one way that money could be allocated to schools, which would amount to about \$27 million for schools. He explained that this amount was derived by multiplying the number of students in the state by \$200. That amount would then be allocated to cities and boroughs that have school districts. At the bottom of the spreadsheet the amount for REAA's is noted, \$3,161,800, which is the number of students in REAAs multiplied by the \$200. He guessed that money would go back to the state since there is no municipal government running the school district in REAAs.

CO-CHAIR MEYER remarked that he is "still smarting" from the PFD vote. He asked if Mr. Ritchie could offer any advice regarding how to sell this concept.

MR. RITCHIE related his belief that there were weaknesses to the September 14th vote. One of the significant weaknesses was accountability in that the public didn't really know where the money would go beyond that it just would go to "the government." That is a fairly scary concept. Furthermore, there needs to be some significant education on this issue. Mr. Ritchie mentioned that Alaskans United Against the Cap is attempting to reorganize as Alaskans United in order to work on educating the public.

CO-CHAIR MEYER agreed that more education would help. He also agreed that this legislation lists specifics in regard to where the money will go, which wasn't the case during the vote.

Furthermore, Co-Chair Meyer noted that enlisting Governor Hammond's help in selling this program would be helpful.

Number 2556

REPRESENTATIVE SCALZI asked if AML is in general support of this concept versus the current revenue sharing and municipal assistance.

MR. RITCHIE pointed out that the AML's policy statement says that it would be acceptable for the legislature to provide municipalities with \$50 million in tax relief with no strings. However, AML will also support this concept [proposed in HB 20]. Mr. Ritchie specified that both approaches are acceptable, although HB 20 is the only one that has accountability and would garner the necessary long-term support.

REPRESENTATIVE SCALZI asked if AML felt that HB 20 addresses the fairness issue regarding the municipalities that tax themselves versus those that don't.

MR. RITCHIE said that if that could be factored in that would be appropriate, but "we couldn't figure out a way to do that." He reiterated that HB 20 provides accountability in that a community would only receive the \$20 per person for fire service if the community provided fire service. Although \$20 per person for fire service will not cover that service, it provides an incentive to provide that service.

REPRESENTATIVE SCALZI asked if a fire service district would be eligible for these funds or would the funds have to go to the municipality.

MR. RITCHIE answered that the funds would go to the organization if it [the organization] wasn't part of an organized municipality. He turned to Kenai as an example. Kenai has several EMS organizations that are not part of the city. In that case, he presumed that the money would go to the borough that would allocate the money to those organizations.

Number 2404

REPRESENTATIVE MURKOWSKI asked if AML would prefer the \$250 per individual amount.

MR. RITCHIE said, "We would agree with the sponsor that a higher amount has, still, a very small impact on the dividend, but has

more benefit to the people of the state." He mentioned that AML is meeting next week with the Legislative Conference and this will be put before the members. In discussions with AML's Board and the Revenue and Finance Subcommittee, support of the higher amount has been noted at this point. He emphasized the need to continue to educate AML members because it is important for every community to think this is a good idea.

Number 2315

JIM KELLY, Director, Communications, Alaska Permanent Fund Corporation, Department of Revenue, informed the committee that the long-standing position of the [Permanent Fund Corporation] board is that it neither supports nor opposes any proposals relating to the use of fund earnings. However, he did mention the proposal encompassed in HJR 15. Mr. Kelly pointed out that with the \$250 municipal dividend, the effect over 10 years would be an \$80 [reduction]. He also pointed out that the market itself will probably cause the dividend to be reduced by about \$80 this year. Therefore, he advised the committee, when reviewing these projections, to realize that the projections are based on median expectations. He said, "There could be a lot more money for dividends or a lot less money for dividends than you show on these sheets or for payout for any purpose. The market is going to have a much larger impact than something like this proposal here, for example."

REPRESENTATIVE MURKOWSKI turned to the Permanent Fund Board's current proposal that would cap the payout. She inquired as to how that proposal would impact a program like the municipal dividend program.

Number 2198

MR. KELLY said that the Permanent Fund Board's current proposal is designed to accomplish what the legislature has been accomplishing for the last 25 years. He specified that the basic concepts behind the Permanent Fund Board's current proposal are the following: to protect the purchasing power of the fund in order that there will be a permanent fund; to establish a system such that it will maximize the amount of income that the fund can produce year after year; and to provide the maximum amount of stability in the annual payout. Mr. Kelly said that the plan [encompassed in HB 20] would have no negative impact on [the Permanent Fund Board's current proposal]. He estimated that the permanent fund dividend plus the municipal dividend would amount to about 4.5 percent of the average market

value of the fund. Having analyzed HJR 15, Mr. Kelly said he was confident that anywhere between \$175-\$300 million more than the current payout could be paid out and there would still be a permanent fund that is protected forever. Therefore, the \$300 per person municipal dividend mentioned by Representative Moses would be in that range and would be below the 5 percent payout in combination with the permanent fund dividend.

REPRESENTATIVE MURKOWSKI asked if anything would be left over.

MR. KELLY explained that the permanent fund dividend currently takes about 4 percent of the market value of the fund and thus 1 percent of the fund would be left. If there was a \$30 billion fund, 5 percent of that amounts to \$1.5 billion. He informed the committee that this year about \$1.1 billion will be paid out this year for the per capita dividends. "The \$300 per person municipal dividend would take something like a couple of hundred dollars, depending on the year," he said.

Number 2034

REPRESENTATIVE MURKOWSKI inquired as to what would happen if the market fell and the 5 percent payout cap was in place as well as the municipal dividend and the permanent fund dividend is paid out.

MR. KELLY explained that the advantage of the proposal [in HJR 15] is that there is a constitutional limit on how much can be paid out. Therefore, the inflation-proofing money no longer has to be moved from the earnings reserve account to the principal, where it cannot be spent. [The inflation-proofing money] amounts to about \$700 million this year. In a situation in which there are two to three consecutive years of negative earnings, the earnings reserve account would eventually be depleted and there would be no money for anything. Therefore, it's important to bulk up the earnings reserve account. For example, there was about \$6.5 billion in the earnings reserve account on June 30, 2000. Nine months later, after paying out \$1 billion and suffering about a 6.5 percent negative return, the earnings reserve is down to about \$4 billion. A couple more years such as that could deplete the earnings reserve account, which would result in a serious problem.

REPRESENTATIVE MURKOWSKI inquired as to where "the give" would occur if there is a municipal dividend program in statute and the cap on the PFD in the constitution. She related her assumption that the PFD to the people would end at some point.

MR. KELLY pointed out that HB 20 pays the municipal dividend after the per capita dividend and inflation-proofing. Therefore, he agreed with Representative Murkowski that the municipal dividend program would come after the per capita dividend. He clarified:

Putting a limit in place which allows you to hold on to that inflation-proofing money in the earnings reserve account, where it is available for spending, is probably going to turn out to be one of the key decisions facing the legislature ... in the future. That's going to make a big difference in the availability of money in the future because you cannot spend principal, by the constitution.

Number 1851

REPRESENTATIVE MOSES noted his confidence that the municipal dividend program will be a major step in solving Alaska's fiscal problems. He also noted the need to amend the effective date.

MR. BENINTENDI informed the committee that in order for the program to be effective for fiscal year 2002, the transfer would need to occur June 30, 2001. Therefore, the department would have from July 1st on to make the distribution under this program. Mr. Benintendi, in response to Representative Murkowski's earlier question, directed the committee to page 14, line 10, which specifies that after inflation-proofing and payment of the PFD, the municipal dividend would equal the lesser of the following amounts: \$150 times the number of PFD recipients from the prior year or the balance in the account. Therefore, [the municipal dividend] program could shrink.

Number 1704

REPRESENTATIVE KERTTULA moved that the committee adopt an effective date of June 30, 2001.

REPRESENTATIVE MURKOWSKI asked if the program can be implemented that quickly.

MR. BENINTENDI related his belief that the department would be ready.

REPRESENTATIVE SCALZI remarked that HB 20 is being reviewed as possibly part of a long-term fiscal plan. Therefore,

Representative Scalzi expressed his preference of giving this [municipal dividend program] public review and doing it next year. He asked if Representative Moses felt that this is a stand-alone measure that should go forward this year.

REPRESENTATIVE MOSES answered that he believes this [municipal dividend program] to be a stand-alone measure. Furthermore, he felt that the permanent fund dividend should have been capped in prior years. He reiterated the fact that municipal revenue sharing has been cut to bare bones, which actually results in a property tax on "our constituents."

CO-CHAIR MORGAN asked if there was any objection to the amendment to change the effective date of HB 20 to June 30, 2001. There being no objection, the amendment was adopted.

Number 1466

CO-CHAIR MEYER acknowledged that this municipal dividend program has been around for awhile. Therefore, he inquired as to the past opposition or resistance to this bill.

REPRESENTATIVE MOSES said that he didn't know because he isn't privy to some of the decisions made by the Majority.

MR. BENINTENDI informed the committee that this is the third legislature that this bill has been introduced in some fashion. Mr. Benintendi pointed out that there is "considerable stress in accessing the earnings reserve, for the first time, for a major program." However, the components of the program are very popular. Mr. Benintendi also informed the committee that last year both versions of this legislation were in the House and Senate Finance Committees. However, the bill couldn't get a hearing in either committee last year. He reiterated that there was never any negative comments regarding the program's components.

CO-CHAIR MEYER noted his agreement with Representative Scalzi's suggestion that perhaps this should be part of a larger long-term fiscal plan. However, he also noted agreement that HB 20 is a start.

REPRESENTATIVE MOSES interjected that the legislature should do a long-term fiscal plan this year. He noted that HB 10 and HB 20 will go far in achieving a long-term fiscal plan.

REPRESENTATIVE MURKOWSKI commended Representative Moses for his proposal. She remarked that [the municipal dividend program] is a good idea. She acknowledged, "Perhaps, there hasn't been the political will to go into the earnings reserve arena, probably understandably so." However, she expressed her hope that "we" are approaching the point at which something such as HB 20 can move through the legislature. She noted that she liked HB 20 because of its accountability. Representative Murkowski also expressed her hope that HB 20 would go further this year and move us towards a long-term fiscal plan.

Number 1097

REPRESENTATIVE MURKOWSKI moved to report HB 20 as amended out of committee with individual recommendations and the accompanying zero fiscal notes. There being no objection, CSHB 20(CRA) was reported from the House Community and Regional Affairs Standing Committee.

#### **ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:35 a.m.