

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

May 7, 2002
8:10 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 4(RLS) am
"An Act relating to optional exemptions from municipal property taxes on residential property and limiting an optional exclusion or exemption to the assessed value of \$10,000 for a residence in a municipality with a total bonded indebtedness that equals or exceeds \$15,000 multiplied by the number of residents in the municipality; and providing for an effective date."

- HEARD AND HELD

CS FOR SENATE BILL NO. 181(FIN) am
"An Act relating to and increasing the interest rate on that portion of a loan for a single-family house or owner-occupied duplex that exceeds \$200,000 where the loan is for a house or duplex in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks for purposes of the small community housing program of the Alaska Housing Finance Corporation; relating to loans for teacher housing in which each unit that is not vacant is occupied by at least one individual who is employed as a certificated teacher in a public elementary or secondary school in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is

connected by road or rail to Anchorage or Fairbanks, and increasing the interest rate on the loans if this occupancy requirement is not complied with; and providing for an effective date."

- FAILED TO MOVE HCS CSSB 181(CRA) OUT OF COMMITTEE

PREVIOUS ACTION

BILL: SB 4

SHORT TITLE: FIREFIGHTER/EMT MUNI. PROP. TAX EXEMPTION

SPONSOR(S): SENATOR(S) THERRIAULT

Jrn-Date	Jrn-Page		Action
01/08/01	0012	(S)	PREFILE RELEASED - 12/29/00
01/08/01	0012	(S)	READ THE FIRST TIME - REFERRALS
01/08/01	0012	(S)	CRA, FIN
02/07/01		(S)	CRA AT 1:30 PM FAHRENKAMP 203
02/07/01		(S)	Heard & Held
02/07/01		(S)	MINUTE(CRA)
02/28/01		(S)	CRA AT 1:30 PM FAHRENKAMP 203
02/28/01		(S)	Moved CSSB 4(CRA) Out of Committee
02/28/01		(S)	MINUTE(CRA)
03/01/01	0554	(S)	CRA RPT CS 1DP 2NR NEW TITLE
03/01/01	0555	(S)	DP: TORGERSON; NR: PHILLIPS, AUSTERMAN
03/01/01	0555	(S)	FN1: (REV)
03/01/01	0555	(S)	FN2: ZERO(REV)
03/19/01		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/19/01		(S)	Heard & Held
03/19/01		(S)	MINUTE(FIN)
03/22/01		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/22/01		(S)	MINUTE(FIN)
03/23/01		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/23/01		(S)	Scheduled But Not Heard
03/27/01		(S)	FIN AT 6:00 PM SENATE FINANCE 532
03/27/01		(S)	Moved CS(FIN) Out of Committee
03/27/01		(S)	MINUTE(FIN)
04/05/01	0955	(S)	AM: DONLEY, LEMAN;
04/05/01	0955	(S)	NR: KELLY, GREEN, AUSTERMAN,

04/05/01	0955	(S)	HOFFMAN, FN3: (REV)
04/05/01	0955	(S)	OLSON; DP: WILKEN
04/05/01	0955	(S)	FIN RPT CS 1DP 5NR 2AM SAME TITLE
04/20/01		(S)	RLS AT 10:45 AM FAHRENKAMP 203
04/20/01		(S)	MINUTE(RLS)
03/01/02	2350	(S)	FIN REFERRAL ADDED (RETURNED TO FIN)
03/21/02		(S)	FIN AT 9:00 AM SENATE FINANCE 532
03/21/02		(S)	Moved Out of Committee
03/21/02		(S)	MINUTE(FIN)
03/22/02	2500	(S)	COSPONSOR(S): WILKEN
04/08/02	2657	(S)	FIN RPT CS(2DFIN)3DP 1DNP 2NR NEW TITLE
04/08/02	2657	(S)	DP: KELLY, WILKEN, AUSTERMAN;
04/08/02	2657	(S)	DNP: DONLEY; NR: LEMAN, WARD
04/08/02	2657	(S)	FN4: (REV)
04/16/02		(S)	RLS AT 10:30 AM FAHRENKAMP 203
04/16/02		(S)	MINUTE(RLS)
04/18/02		(S)	RLS AT 10:30 AM FAHRENKAMP 203
04/18/02		(S)	MINUTE(RLS)
04/22/02	2887	(S)	RULES TO CAL W/CS 2OR 4/22 SAME TITLE
04/22/02	2887	(S)	FN5: (REV)
04/22/02	2888	(S)	READ THE SECOND TIME
04/22/02	2888	(S)	RLS CS ADOPTED UNAN CONSENT
04/22/02	2888	(S)	AM NO 1 FAILED Y7 N13
04/22/02	2889	(S)	AM NO 2 FAILED Y8 N12
04/22/02	2890	(S)	ADVANCED TO 3RD READING FLD Y14 N5 A1
04/22/02	2890	(S)	ADVANCED TO THIRD READING 4/23 CALENDAR
04/23/02	2905	(S)	READ THE THIRD TIME CSSB 4(RLS)
04/23/02	2905	(S)	PASSED Y13 N7
04/23/02	2906	(S)	EFFECTIVE DATE(S) ADOPTED Y20 N-
04/23/02	2906	(S)	OLSON NOTICE OF RECONSIDERATION
04/24/02	2925	(S)	RECON TAKEN UP - IN THIRD READING
04/24/02	2925	(S)	RETURN TO SECOND FOR AM 3

			UNAN CONSENT
04/24/02	2925	(S)	AM NO 3 ADOPTED UNAN CONSENT
04/24/02	2926	(S)	AUTOMATICALLY IN THIRD
			READING
04/24/02	2926	(S)	PASSED ON RECONSIDERATION Y20
			N-
04/24/02	2926	(S)	EFFECTIVE DATE(S) SAME AS
			PASSAGE
04/24/02	2935	(S)	TRANSMITTED TO (H)
04/24/02	2935	(S)	VERSION: CSSB 4(RLS) AM
04/25/02	3122	(H)	READ THE FIRST TIME -
			REFERRALS
04/25/02	3122	(H)	CRA, FIN
05/07/02		(H)	CRA AT 8:00 AM CAPITOL 124

BILL: SB 181

SHORT TITLE: SMALL COMMUNITY/TEACHER HOUSING LOANS

SPONSOR(S): FINANCE

Jrn-Date	Jrn-Page		Action
04/09/01	1014	(S)	READ THE FIRST TIME -
			REFERRALS
04/09/01	1014	(S)	FIN
04/19/01		(S)	FIN AT 9:00 AM SENATE FINANCE
			532
04/19/01		(S)	Heard & Held
04/25/01		(S)	FIN AT 9:00 AM SENATE FINANCE
			532
04/25/01		(S)	Heard & Held
04/25/01		(S)	MINUTE(FIN)
01/31/02		(S)	FIN AT 9:30 AM SENATE FINANCE
			532
01/31/02		(S)	Heard & Held
01/31/02		(S)	MINUTE(FIN)
03/21/02		(S)	FIN AT 9:00 AM SENATE FINANCE
			532
03/21/02		(S)	Heard & Held
03/21/02		(S)	MINUTE(FIN)
04/23/02		(S)	FIN AT 4:00 PM SENATE FINANCE
			532
04/23/02		(S)	Moved CS(FIN) Out of
			Committee
04/23/02		(S)	MINUTE(FIN)
04/24/02	2920	(S)	FIN RPT CS 6DP 2NR NEW TITLE
04/24/02	2920	(S)	DP: DONLEY, KELLY, GREEN,
			OLSON,
04/24/02	2920	(S)	WILKEN, LEMAN; NR: AUSTERMAN,

			WARD
04/24/02	2920	(S)	FN1: INDETERMINATE(REV)
05/01/02		(S)	RLS AT 10:30 AM BELTZ 211
05/01/02		(S)	-- Location Change --
05/01/02		(S)	MINUTE(RLS)
05/02/02	3129	(S)	READ THE SECOND TIME
05/02/02	3129	(S)	FIN CS ADOPTED UNAN CONSENT
05/02/02	3130	(S)	ADVANCED TO THIRD READING UNAN CONSENT
05/02/02	3130	(S)	READ THE THIRD TIME CSSB 181(FIN)
05/02/02	3130	(S)	PASSED Y18 N- E1 A1
05/02/02	3130	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
05/02/02	3130	(S)	HOFFMAN NOTICE OF RECONSIDERATION
05/02/02	3102	(S)	RULES TO CALENDAR 5/2/02
05/03/02	3147	(S)	RECON TAKEN UP - IN THIRD READING
05/03/02	3147	(S)	RETURN TO SECOND FOR AM 1 UNAN CONSENT
05/03/02	3147	(S)	AM NO 1 OFFERED BY HOFFMAN
05/03/02	3148	(S)	AM TO AM 1 UNANIMOUS CONSENT
05/03/02	3148	(S)	AM NO 1 AS AMENDED ADOPTED UNAN CONSENT
05/03/02	3148	(S)	AUTOMATICALLY IN THIRD READING
05/03/02	3148	(S)	AM NO 2 (TITLE AM) ADOPTED UNAN CONSENT
05/03/02	3149	(S)	PASSED ON RECONSIDERATION Y20 N-
05/03/02	3149	(S)	EFFECTIVE DATE(S) SAME AS PASSAGE
05/03/02	3151	(S)	TRANSMITTED TO (H)
05/03/02	3151	(S)	VERSION: CSSB 181(FIN) AM
05/06/02	3383	(H)	READ THE FIRST TIME - REFERRALS
05/06/02	3383	(H)	CRA, FIN
05/07/02		(H)	CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

SENATOR GENE THERRIAULT
Alaska State Legislature
Capitol Building, Room 121
Juneau, Alaska 99801

POSITION STATEMENT: Testified as the sponsor of SB 4.

DAN DICKINSON, Director
Tax Division
Department of Revenue
550 W 7th Avenue, Suite 500
Anchorage, Alaska 99501-3566
POSITION STATEMENT: Provided information related to the fiscal
note for SB 6.

WILDA RODMAN, Staff
to Senator Therriault
Capitol Building, Room 121
Juneau, Alaska 99801
POSITION STATEMENT: Provided remarks on behalf of the sponsor.

PHILIP CUTLER, Staff
to Senator Dave Donley
Senate Finance Committee
Alaska State Legislature
Capitol Building, Room 506
Juneau, Alaska 99801
POSITION STATEMENT: Testified on behalf of the sponsor of SB
181, the Senate Finance Committee.

BILL LAWRENCE, Staff
to Representative Morgan
House Community and Regional Affairs Standing Committee
Alaska State Legislature
Capitol Building, Room
Juneau, Alaska 99801
POSITION STATEMENT: Presented HCS CSSB 181, Version V.

JOHN BITNEY, Legislative Liaison
Alaska Housing Finance Corporation
Department of Revenue
PO Box 101020
Anchorage, Alaska 99510-1020
POSITION STATEMENT: Testified on AHFC's position on SB 181.

ACTION NARRATIVE

TAPE 02-25, SIDE A
Number 0001

CO-CHAIR KEVIN MEYER called the House Community and Regional
Affairs Standing Committee meeting to order at 8:10 a.m.
Representatives Morgan, Meyer, Scalzi, and Murkowski were

present at the call to order. Representatives Halcro, Guess, and Kerttula arrived as the meeting was in progress.

SB 4-FIREFIGHTER/EMT MUNI. PROP. TAX EXEMPTION

[Contains discussion of HB 6.]

CO-CHAIR MEYER announced that the first order of business would be CS FOR SENATE BILL NO. 4(RLS) am, "An Act relating to optional exemptions from municipal property taxes on residential property and limiting an optional exclusion or exemption to the assessed value of \$10,000 for a residence in a municipality with a total bonded indebtedness that equals or exceeds \$15,000 multiplied by the number of residents in the municipality; and providing for an effective date."

Number 0080

SENATOR GENE THERRIAULT, Alaska State Legislature, testified as the sponsor of SB 4. Senator Therriault explained that SB 4 was introduced in order to offer local governments a tool for dealing with property tax generated from the local residential property. The first section of the bill allows an increase in the residential property tax exemption. The current statutory [residential property tax exemption] was set at \$10,000 in 1974 and hasn't been adjusted since. Therefore, the bill proposes raising [that exemption] to \$15,000 per resident. Under the bill, the owner of a home valued at \$100,000 would have the first \$15,000 tax exempt and thus the millage rate would be based on \$85,000 worth of value. Senator Therriault noted that not all municipalities in the state take advantage of the \$10,000 exemption. Passage of this bill would allow the local assembly to decide whether to ask the local people if they want to increase the [residential property tax exemption] to \$15,000. He pointed out that Senate Finance restricted the use of the \$15,000 exemption such that it isn't available in communities with a per person bonded indebtedness that exceeds \$15,000 multiplied by the number of residents in the municipality.

SENATOR THERRIAULT moved on to the second part of the bill, which deals with the allowance for an additional property tax exemption. This new section to the statutes would allow \$5,000 per person for volunteer emergency medical service (EMS) employees and fire fighters. There would be a maximum of two [of these allowances] per household. Therefore, a husband and wife team who are both part of the local volunteer ambulance crew would be able to receive \$5,000 per person, up to \$10,000,

on top of the aforementioned \$15,000 exemption. Senator Therriault highlighted that in the Fairbanks North Star Borough and most of his district, the only fire service available is through volunteer stations. He noted that over the years the out-of-pocket training expense required of the volunteers has increased. Limiting language was added on the Senate floor such that in order for an individual to receive the additional \$5,000 per person, the individual would have to meet certain standards that are specified for EMS staff and fire fighters under AS 18.08.082 and the Department of Public Safety respectively. This provision could be utilized by passage of an ordinance by the local assembly.

Number 0451

CO-CHAIR MEYER recalled that the committee heard HB 6, which is similar to SB 4, a few weeks ago. He cited one of the major differences between the bills as the \$40,000 exemption in HB 6 versus the \$15,000 exemption in SB 4. He asked if there are other differences.

SENATOR THERRIAULT explained that originally he had a much higher amount for the general residential property tax exemption. However, the fiscal note showed a potential impact to the state treasury in the amount of approximately \$750,000, which was a concern in the Senate. Although the number that was acceptable for the Senate was less than he wanted, the \$15,000 is an increase of 50 percent over the current exemption.

Number 0568

REPRESENTATIVE GUESS inquired as to which communities were excluded with the \$15,000 multiplied by the number of residents. Why was that included, she asked.

SENATOR THERRIAULT answered that the only community that would be excluded is the North Slope Borough. He explained that Senator Donley was concerned that with a further exemption on residential property, there would be a slight revenue loss. The community would probably make up that revenue loss by increasing the overall millage rate, which applies to oil and gas properties. Even a small increase in the overall millage rate on the North Slope Borough, when it's applied to all oil and gas properties, is a tremendous amount of revenue that would accrue to the borough rather than the state treasury. Senator Therriault mentioned that currently there is an argument that the North Slope Borough is misapplying the current state

statutes with regard to the amount of property tax it generates. This is a way in which to exempt the North Slope Borough.

REPRESENTATIVE GUESS asked if any other borough, such as Valdez, is in the aforementioned situation with oil and gas property.

SENATOR THERRIAULT acknowledged that Valdez, Fairbanks, and a future borough in the Delta Junction area have [a similar] dynamic [with oil and gas property]. However, the overall millage rate is kept under control because if [the borough] wants to charge the oil and gas companies, it also has to charge the residential property taxpayers the same amount. The mechanism [in CSSB 4(RLS) am] allows [boroughs] to charge general residential property taxpayers a lower amount. He noted that in Fairbanks and Valdez there are other businesses that would feel an increase if the overall property tax was raised, which also helps keep things "in check."

Number 0776

REPRESENTATIVE SCALZI turned to the exemption for the fire and EMS [volunteers]. Representative Scalzi recalled that HB 6 passed from this committee with a \$20,000 [exemption] for fire and EMS volunteers. He asked if Senator Therriault would object to this committee amending the fire and EMS volunteer exemption to \$10,000.

SENATOR THERRIAULT related that the problem would be concurrence from the Senate if the overall amounts are increased, although he noted he would like to see it higher as well. He said he would be willing to split the difference and offer a \$7,500 exemption for fire and EMS volunteers.

REPRESENTATIVE SCALZI said he would support getting this through and thus would help work on getting this passed in the Senate.

SENATOR THERRIAULT remarked that once this statute is in place it would seem that there would be the potential to increase the exemption once it becomes clear how the communities use it. Too high of an increase would endanger the passage of the bill, he predicted.

CO-CHAIR MEYER recalled that this general residential property tax exemption hasn't been adjusted since 1974. He suggested that perhaps these exemptions should be reviewed more often.

SENATOR THERRIAULT informed the committee that Anchorage doesn't use the existing \$10,000 exemption. He reiterated that this will be a local option.

REPRESENTATIVE GUESS asked how the fiscal note would change if the North Slope Borough is included.

Number 1000

DAN DICKINSON, Director, Tax Division, Department of Revenue, testified via teleconference. He estimated that including the North Slope Borough would increase the fiscal note by \$20,000, which he characterized as a fairly small increase.

REPRESENTATIVE MURKOWSKI turned to Section 2 of the bill. She recalled that under HB 6 there were no requirements that the fire fighters or EMS volunteers had to meet. The municipality was left to determine whether these individuals should qualify for the exemption. She inquired as to how many individuals may qualify or avail themselves of this exemption under SB 4.

MR. DICKINSON answered that while there will be some effect, it's so small that it's on the border of the division's ability to estimate it. In other words, he estimated that it would merely have the effect of several hundreds of dollars on the state revenues.

REPRESENTATIVE GUESS expressed concern when there is legislation that decides to include or exclude certain communities. She questioned whether the exclusion should be there.

CO-CHAIR MEYER remarked that the North Slope Borough is unique in regard to the amount of oil and gas production it has and the few people in the area.

Number 1248

REPRESENTATIVE SCALZI commented that \$20,000 seems like a minimal impact, although he wasn't sure that's how he read it. Representative Scalzi noted his concern with the second part of the bill. Therefore, he proposed an amendment that would increase the tax exemption for EMS and fire volunteers to \$10,000. Representative Scalzi moved the aforementioned amendment [Amendment 1].

CO-CHAIR MEYER objected for the purposes of discussion.

REPRESENTATIVE MURKOWSKI said she didn't have any hardship in [adopting] the aforementioned amendment.

REPRESENTATIVE SCALZI clarified that under HB 6, the volunteer exemption was up to \$20,000 per household.

Number 1435

REPRESENTATIVE HALCRO pointed out that the discussion [on HB 6] involved qualifying the primary resident.

CO-CHAIR MEYER withdrew his objection.

CO-CHAIR MORGAN related his belief that [House] Finance amended HB 6 such that the volunteer exemption was decreased to \$10,000.

CO-CHAIR MEYER announced that there being no objection, [Amendment 1] was adopted.

Number 1518

WILDA RODMAN, Staff to Senator Therriault, Alaska State Legislature, requested clarification as to whether the \$10,000 volunteer exemption was per residence or resident.

REPRESENTATIVE GUESS specified that it would be per resident.

REPRESENTATIVE SCALZI clarified that Amendment 1 would merely change the \$5,000 on page 2, line 10, to \$10,000, and everything else would stay the same.

Number 1558

REPRESENTATIVE GUESS moved the following amendment, Amendment 2:

Page 1, line 13 - page 2, line 2

Delete "in a municipality with a level of total bonded indebtedness that equals or exceeds \$15,000 multiplied by the number of residents in the municipality."

REPRESENTATIVE GUESS said that although she recognized the need to be careful with the North Slope Borough, she also expressed the need to be careful when excluding communities.

CO-CHAIR MEYER objected for purposes of discussion.

MS. RODMAN pointed out that Amendment 2 would require a title change.

CO-CHAIR MEYER remarked that [Amendment 2] may be going into an area that may be too complicated for him to explain.

REPRESENTATIVE SCALZI said that he wasn't very comfortable with it either because he didn't understand it well.

MR. DICKINSON explained that Kenai includes approximately \$600 million worth of oil and gas property with a total valuation of about \$3.5 billion. Although it's a significant percentage, it's no comparison for the North Slope Borough which has \$10.2 billion in oil and gas property and about \$200 million in non oil and gas property. The North Slope Borough's percentage amounts to well over 95 percent. Mr. Dickinson explained that there are so few residences on the North Slope that are taxed that if there were an increased exemption, the mill rate would only increase a tiny amount and thus the effect is fairly small.

The committee took an at-ease from 8:39 a.m. to 8:41 a.m.

MS. RODMAN said that changing the amount of the exemption will be a hard sale in the Senate, especially because of the title change that would be required. Therefore, she said she believes the sponsor would argue against Amendment 2.

Number 1857

REPRESENTATIVE HALCRO announced that he is supportive [of Amendment 2]. However, the bill will have changed so dramatically that he would suggest that the committee gain access to more information before the bill moves forward. He expressed concern that this bill will allow a "back door" to be left unlocked. Therefore, he recommended that Amendment 2 not be adopted and the bill be put aside until more information is gathered.

REPRESENTATIVE SCALZI indicated agreement with regard to not supporting the amendment at this time, but he said he believes the bill could be forwarded from this committee with a recommendation to the next committee. He pointed out that there will be opportunities in the next committee of referral, the House floor, and possibly a conference committee to address this.

Number 1990

REPRESENTATIVE MURKOWSKI related her belief that when the committee reported HB 6 from committee, it made a strong statement of support with regard to this issue. The amounts [for the exemption] were substantially higher in HB 6. With regard to the levels for fire and EMS volunteers, the levels were twice as high. Furthermore, HB 6 didn't use language that singled out one part of the state. Although she understood that attempting to mirror HB 6 in SB 4 would create difficulty in the Senate, she said she wasn't comfortable sending this to the floor with the North Slope Borough exclusion. Representative Murkowski identified the options as holding the bill, changing it to mirror HB 6, or moving it as is and trust that other committees will deal with it. She noted her curiosity with regard to how House Finance dealt with HB 6.

CO-CHAIR MEYER agreed that he, too, is more comfortable with HB 6. However, SB 4 seems to have the most momentum.

Number 2153

REPRESENTATIVE KERTTULA remarked that the committee should do what it thinks is right now.

CO-CHAIR MEYER reminded the committee that before it is a motion to adopt Amendment 2.

REPRESENTATIVE GUESS clarified that before the committee is Amendment 2 with the necessary title change. Representative Guess announced that she wouldn't mind withdrawing her amendment if the bill is going to be held. However, if the plan is to move this bill from committee today, then she would maintain her motion to adopt Amendment 2.

CO-CHAIR MEYER said that he wouldn't mind holding the bill for a day, if the committee could meet tomorrow.

REPRESENTATIVE KERTTULA, in response to Representative Halcro, informed the committee that HB 6 is in House Finance.

The committee took an at-ease from 9:49 a.m. to 9:53 a.m.

Number 2253

REPRESENTATIVE GUESS withdrew Amendment 2.

REPRESENTATIVE HALCRO suggested that representatives from the Department of Community & Economic Development and the Department of Law attend the next meeting.

CO-CHAIR MEYER announced that SB 4 would be held until the next meeting, Thursday, May 9, 2002.

SB 181- SMALL COMMUNITY/TEACHER HOUSING LOANS

CO-CHAIR MORGAN announced that the next order of business would be CS FOR SENATE BILL NO. 181(FIN) am, "An Act relating to and increasing the interest rate on that portion of a loan for a single-family house or owner-occupied duplex that exceeds \$200,000 where the loan is for a house or duplex in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks for purposes of the small community housing program of the Alaska Housing Finance Corporation; relating to loans for teacher housing in which each unit that is not vacant is occupied by at least one individual who is employed as a certificated teacher in a public elementary or secondary school in a small community with a population of 6,500 or less that is not connected by road or rail to Anchorage or Fairbanks, or with a population of 1,600 or less that is connected by road or rail to Anchorage or Fairbanks, and increasing the interest rate on the loans if this occupancy requirement is not complied with; and providing for an effective date."

Number 2286

PHILIP CUTLER, Staff to Senator Dave Donley, Senate Finance Committee, Alaska State Legislature, testified on behalf of the sponsor of SB 181, the Senate Finance Committee. The legislation was introduced due to a legislative audit that concluded the [housing assistance loan fund (HALF)] program wasn't necessary because other commercial loan programs provide the necessary financing for rural resident housing. This year the bill has been through at least 15 versions. He explained that one program provides a 1 percent reduction in the interest rates for those in small communities, and there wasn't any income restriction. Therefore, the state, through the Alaska Housing Finance Corporation (AHFC), was subsidizing the interest for a couple of \$400,000 loans. This subsidization amounts to a \$100,000 to AHFC and the state's profit statements. There were also about a dozen loans that were over \$300,000. Many people

questioned why the state would be subsidizing loans for that amount of money.

MR. CUTLER informed the committee that the bill includes Senator Hoffman's request to subsidize loans for housing for teachers. This is an incentive to draw teachers to the Bush where they are direly needed. The bill does not allow [subsidization] for multi-family housing or non owner-occupied housing, except for teachers. Mr. Cutler related Senator Donley's and the Senate Finance Committee's belief that it isn't appropriate to subsidize an investment. Therefore, someone constructing multi-family units should be able to pay the market rates for the mortgage. Also, the maximum amount of the loan was adjusted to a \$200,000 maximum on the Senate floor. According to real estate [professionals] in the legislature, a family qualifying for a \$200,000 loan would have a monthly income of \$5,000-\$6,000. Therefore, it was felt that those earning that amount didn't need to be subsidized by the state.

Number 2519

REPRESENTATIVE MURKOWSKI noted that she liked the teacher provision. She posed a situation in which a certified teacher who is teaching receives the loan but takes retirement the following year. She inquired as to how such a situation would work.

MR. CUTLER explained that as the bill is currently written the loan would be available to the homeowner as a teacher as well as to the community/investor to build a home so long as the resident is a certified teacher. If the resident isn't a certified teacher, the loan rate reverts to the market rate. In further response to Representative Murkowski, he confirmed that the [loan rate] would be retroactive. Mr. Cutler clarified that for a 15 year loan, the teacher would have to be a teacher for the life of the loan.

REPRESENTATIVE MURKOWSKI surmised then that for a teacher who receives one of these loans and decides to retire before the loan is paid off, the entire amount would have to be paid back.

MR. CUTLER replied yes, under the current bill.

Number 2633

CO-CHAIR MORGAN informed the committee that he has a committee substitute (CS) that addresses that.

REPRESENTATIVE MURKOWSKI turned to the anticipated shortage of administrators. She, after hearing from the sponsors, that high school principals would be covered under this bill.

MR. CUTLER, in response to Representative Scalzi, explained that the subsidy is 1 percent of the market rate.

REPRESENTATIVE SCALZI commented that this seems inconsistent with the Senate's view with SB 4, which excludes one borough in that SB 181 doesn't exclude small villages.

MR. CUTLER pointed out that there had been some high-value loans to persons making over \$100,000 a year. It is difficult to justify subsidizing loans to people making the aforementioned income, especially when some of the loans were for investment property. He clarified that now the loan program is restricted to residents, save multi-family homes for teachers. In further response to Representative Scalzi, Mr. Cutler confirmed that the current statute applies to single-family dwellings as well as investment properties.

Number 2772

REPRESENTATIVE GUESS commented that one can purchase a house as a first time homebuyer and although the homebuyer's income could change, the homebuyer would still [benefit] from the first time homebuyer. Representative Guess related her desire to see other professionals in the school system included as are certified teachers. She noted the difficulties recruiting other professionals in the school system such as speech pathologists and counselors.

MR. CUTLER specified that that portion of the bill was an amendment submitted by Senator Hoffman.

REPRESENTATIVE HALCRO pointed out that the sponsor statement says that 74 percent of the loans made during this period were to borrowers where home construction costs were less than in the Anchorage area. He inquired as to the location of the construction.

MR. CUTLER answered that these [borrowers] were throughout the Interior. He said that the basic difference is the value of the land. Sometimes the low cost of the land more than offsets the increased cost of bringing in the materials and building the house.

REPRESENTATIVE HALCRO asked, "Is this just Senate Finance's feeling that these people in rural Alaska are building homes?"

MR. CUTLER recalled that it's part of the legislative audit report. In further response to Representative Halcro, Mr. Cutler specified that the AHFC dividend was about \$103 million last year.

Number 2928

CO-CHAIR MEYER inquired as to what \$200,000 would purchase in rural Alaska.

TAPE 02-25, SIDE B

MR. CUTLER mentioned the multiple listing service and noted the he didn't know how many homes in rural Alaska would go through the multiple listing service. He informed the committee that for the third quarter of 2001 the average cost of a home statewide was \$187,000.

CO-CHAIR MEYER suggested that nurses, paramedics, EMTs, and Village Public Safety Officers (VPSO) are also in shortage in rural Alaska and those groups seem to be missing from this.

Number 2850

BILL LAWRENCE, Staff to Representative Morgan, House Community and Regional Affairs Standing Committee, Alaska State Legislature, informed the committee that on page 2, line 29, of HCS CSSB 181 the words "entire original" were replaced with the words "remaining balance". He noted that this language change is related to Representative Murkowski's earlier comments [regarding the retroactivity of CSSB 181(FIN)am].

Number 2775

REPRESENTATIVE KERTTULA moved to adopt HCS CSSB 181, Version 22-LS0488\V, Cook, 5/6/02, as the working document. There being no objection, Version V was before the committee.

Number 2745

JOHN BITNEY, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue, began by thanking Mr. Cutler for his work on this bill. Mr. Bitney informed the committee

that the rural program began in 1980 and was moved under the purview of AHFC in 1992. The loan program is funded from a revolving fund known as HALF. During the merger [in 1992], AHFC purchased HALF from the state for about \$190 million in cash. Since 1992 AHFC has run HALF. Mr. Bitney pointed out that the qualifications for loans under the program are set in statute, which is unlike any other AHFC program. Normally, all loan programs are driven by cost of funds; for [AHFC's] ability to go out into the capital markets and issue bonds that are backed by the mortgages that AHFC makes from those bond proceeds. The interest rate is set at 1 percent below the taxable bond rate, which he referred to not as a subsidy but as a lost earnings potential. However, there are other interest rates besides the tax-exempt interest rate such as the rate for first-time homebuyers. The first-time homebuyer's program is driven by income limits of the borrower and the price of the home. Most of those funds [are used] in Anchorage and Southcentral Alaska where cost construction and homes fit within the acquisition limits of that tax-exempt program. Mr. Bitney said that having a 1 percent discounted loan program wasn't necessarily unfair in terms of opportunities for people across the state to have access to buying a home. The only other limitation on the rural program is related to people living within a defined small community. Statute defines a defined small community as one with a population of less than 1,600 on the road system and less than 6,500 off the road system. Therefore, the districts of Representative Scalzi and Morgan would qualify. He pointed out that the vast majority of the loans under this program occur in the areas of Ketchikan, Kodiak, and the Kenai Peninsula.

Number 2528

MR. BITNEY highlighted that the bill specifies that the 1 percent discount only applies up to the first \$200,000 purchase price of the home. The portion of the loan above \$200,000 will pay that 1 percent extra. Therefore, loans above \$200,000 will have a blended rate loan. Mr. Bitney explained that when Senator Donley originally wished to repeal the program, the concern was that without the 1 percent discount AHFC would lose business to other major secondary purchasers. Since the legislative audit was released, AHFC's stance has been that AHFC has become a business entity that the state relies on for a dividend every year. For example, this revolving fund generated \$20 million in net income to AHFC in fiscal year 2001. That \$20 million is a substantial portion of the funds that AHFC relies upon to make available to the state each year.

MR. BITNEY turned to the discussion regarding whether the \$200,000 limitation is appropriate and said it's a guess. However, when looking at things in terms of a blended rate, the price of a home has to increase before crossing the line and becoming competitive with other secondary [purchasers]. Therefore, AHFC continues to feel that it will continue to be competitive. Over the last 17 quarters of activity, 12 percent volume was in excess of \$200,000. Mr. Bitney related AHFC's belief that it will earn a bit more in terms of the rise in interest rates. However, all things aren't equal because raising the rates could result in the borrower losing a bit in terms of their qualifications.

Number 2380

MR. BITNEY directed attention to the teacher provision and informed the committee that it's a rewrite of the nonowner occupied portion. Mr. Bitney explained that under the regular program for the 1 percent discount, one can borrow for a single-family or duplex. However, if the property isn't owner occupied, then a multi-family loan, which receives a half percent discount, can be used. Section 2 of the bill rewrites the nonowner occupied portion such that units have to be occupied by a certified teacher. The language doesn't necessarily speak to who the borrower is. If the person living in the unit isn't a certified teacher, [Version V] would have the interest rate increase by 1 percent up to the full taxable rate for the remaining portion versus returning that full taxable rate to the date of origin of the loan, which was the case under CSSB 181(FIN)am. Under CSSB 181(FIN)am, Mr. Bitney said he wasn't sure anyone would take out a loan with such a potential penalty over the life of a 15-30 year note.

Number 2266

REPRESENTATIVE HALCRO pointed out that the bill has an immediate effective date and inquired as to what happens with those folks in the loan approval process.

MR. BITNEY explained that a borrower obtains a commitment from AHFC at some point during the application. Therefore, he related his belief that AHFC's intent would apply to the date of commitment versus the effective date of the bill. In further response to Representative Halcro, Mr. Bitney clarified that from 1998 to the first quarter of 2002 were loans that exceeded \$200,000 amounted to 12 percent by volume.

Number 2190

MR. BITNEY, in response to Representative Guess, specified that the definition of small community is in the definitions Section of AS 18.56.600. In further response to Representative Guess, Mr. Bitney read the provision relating to teachers as allowing a teacher to purchase a home with this [discount] or someone [other than a teacher] could build a multi-unit dwelling [and house teachers].

REPRESENTATIVE GUESS inquired as to why this bill is limited to small communities. She likened this [provision relating to teachers] to Representative Rokeberg's bill that attempts to help recruit and retain teachers by giving a break on [buying] homes. Therefore, she questioned whether this "break" should be given to all teachers in the state rather than just those in small communities.

MR. CUTTER remarked that Representative Rokeberg's bill is a fine bill, save its lack of a funding source. This bill provides a way to fund those loans.

MR. BITNEY interjected that the loans are from a revolving fund and thus there is a limited pool of funds available since it's not tied to a bonded program like all other mortgage programs. The funds aren't available to handle expanding this program statewide. That is also the issue with adding other professions to the program.

REPRESENTATIVE GUESS asked if Mr. Bitney reviewed [the entire] community of educators. That is, was there review of narrowing the scope to only provide this [discount] to places where there is a shortage of teachers or areas in education where there is a shortage, she asked. Therefore, an elementary in Anchorage wouldn't [qualify for the discount] while the special education teacher would due to the shortage in that area of education.

MR. BITNEY replied no and noted that the teacher issue arrived fairly late. He mentioned that AHFC is working on another piece of legislation with Representative Rokeberg. He echoed Mr. Cutler's indications that AHFC hasn't identified a source of funds for [Representative Rokeberg's bill] such that AHFC can lower the rate lower than what other programs already offer.

Number 1938

REPRESENTATIVE KERTTULA inquired as to how the loss of the nonowner program impacted AHFC.

MR. BITNEY answered that from [1998 to the first quarter of 2002] the loan volume for the nonowner program amounted to about 3 percent. Because it is multi-family, it may increase in some years due to the [development] of one project. Therefore, the hope would be to offset that 3 percent loss with some gain in the teacher activity. Mr. Bitney said that the increase in the interest rate on the single family home with the blended rate should balance the situation. Still, this is a best guess.

REPRESENTATIVE KERTTULA inquired as to the number of loan programs that have a professional preference.

MR. BITNEY said that in working on Representative Rokeberg's bill, he reviewed what other states do. The teacher shortage is a national shortage. He found down payment assistance programs [for teachers] and foreclosed properties that are made available to teachers and police. Currently, he wasn't aware of any programs in Alaska that [target] professionals.

Number 1710

MR. BITNEY, in response to Representative Halcro, explained that the delinquency rate on the rural program is generally below the urban [delinquency rate]. He recalled that the [rural delinquency] rate averaged less than 3 percent.

REPRESENTATIVE HALCRO surmised then that the existing business practices clearly illustrate that when AHFC makes exceptions they are good credit risks and contribute \$20 million in revenue.

MR. BITNEY agreed.

Number 1636

REPRESENTATIVE SCALZI related his understanding that this bill merely eliminates the 1 percent discount on any loans over \$200,000.

MR. BITNEY agreed, and clarified that for loans above the \$200,000 that amount above \$200,000 wouldn't receive the 1 percent discount. In further response to Representative Scalzi, the \$200,000 cap doesn't apply to a teacher.

REPRESENTATIVE SCALZI commented that the loan program is supported in [the Homer] area and the Kodiak area. He noted his support of the program, although he mentioned that he wasn't sure that the \$200,000 [cap] is appropriate. Representative Scalzi turned to the first-time homebuyer program and related his belief that if a first-time homebuyer's income increases, the interest rate would rise.

MR. BITNEY replied no.

CO-CHAIR MORGAN announced that public testimony would be closed.

Number 1545

REPRESENTATIVE HALCRO moved to report HCS CSSB 181, Version 22-LS0488\V, Cook, 5/6/02, out of committee with individual recommendations and the accompanying fiscal note.

REPRESENTATIVE KERTTULA objected. She said that she didn't see a reason to do this. She related that she likes the 1 percent discount, but didn't like the \$200,000 cap.

REPRESENTATIVE HALCRO recalled testimony from Mr. Bitney that this bill is part of sound business practices. "I say that we should not look ... a \$103 million gift horse in the mouth. I think this is far over-reaching and I don't support the bill," he said.

CO-CHAIR MEYER expressed the need to hear from the people affected, Co-Chair Morgan and Representative Scalzi.

Number 1463

CO-CHAIR MORGAN related his belief that the \$200,000 cap is a little low. He noted that he was disturbed to hear that it's cheaper to build a house off the road system in Bush Alaska when he also hears that it's too expensive to build the infrastructure necessary in these same areas.

A roll call vote was taken. Representative Meyer voted for reporting Version V from committee. Representatives Kerttula, Halcro, Scalzi, Guess, and Morgan voted against reporting Version V from committee. Therefore, Version V failed to be reported out of the House Community and Regional Affairs Standing Committee by a vote of 1-5.

REPRESENTATIVE SCALZI noted that he would like to hear SB 181 at the next meeting, after speaking with the realtors in his area.

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:40 a.m.