

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

May 9, 2002  
8:35 p.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."

- MOVED HCS CSSB 4(CRA) OUT OF COMMITTEE

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."

- MOVED 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)	REFERRED TO RULES
04/05/01	0955	(S)	AM: DONLEY, LEMAN;

04/05/01	0955	(S)	NR: KELLY, GREEN, AUSTERMAN, HOFFMAN,
04/05/01	0955	(S)	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
05/07/02		(H)	Heard & Held MINUTE(CRA)
05/09/02		(H)	CRA AT 8:30 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
		(S)	MINUTE(FIN)
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
05/07/02		(H)	Failed To Move Out Of Committee MINUTE(CRA)

05/09/02

(H)

CRA AT 8:30 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 explanation of the spreadsheet that analyzes the effect of AS 43.56 with the proposed exemption.

SARA FELIX, Assistant Attorney General  
Civil Division (Juneau)  
Department of Law  
PO Box 110300  
Juneau, Alaska 99811-0300  
POSITION STATEMENT: Answered questions with regard to SB 4.

BILL LAWRENCE, Staff  
to Representative Morgan  
House Community and Regional Affairs Standing Committee  
Alaska State Legislature  
Capitol Building, Room  
Juneau, Alaska 99801  
POSITION STATEMENT: Explained the changes encompassed in HCS CSSB 181, Version H.

JOHN BITNEY, Legislative Liaison  
Alaska Housing Finance Corporation  
PO Box 101020  
Anchorage, Alaska 99510-1020  
POSITION STATEMENT: Discussed AHFC's concerns.

DAN FAUSKE, CEO/Executive Director  
Alaska Housing Finance Corporation  
PO Box 101020  
Anchorage, Alaska 99510-1020  
POSITION STATEMENT: Testified that the cap in SB 181 should be set as high as reasonably possible.

**ACTION NARRATIVE**

TAPE 02-26, SIDE A  
Number 0001

CO-CHAIR KEVIN MEYER called the House Community and Regional Affairs Standing Committee meeting to order at 8:35 p.m. Representatives Morgan, Meyer, Scalzi, and Kerttula were present at the call to order. Representatives Halcro, Murkowski, and Guess 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 0114

REPRESENTATIVE SCALZI moved to adopt Version 22-LS0190\E, Cook, 5/7/02, as the working document. No objection was stated. [Version E was treated as adopted.]

CO-CHAIR MEYER informed the committee that Version E raises the taxation exemption amount from \$5,000 to \$10,000. He reminded the committee that at the last hearing the committee had been discussing Amendment 2, which was ultimately withdrawn. Amendment 2 reads as follows:

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."

SENATOR GENE THERRIAULT, Alaska State Legislature, testified as the sponsor of SB 4. He pointed out that the Department of Revenue put together a spreadsheet [regarding the impact of including or excluding the North Slope Borough]. Senator

Therriault turned to the fiscal notes. The fiscal notes were originally written such that if the borough increased the property tax exemption and suffered a loss, [the fiscal notes showed both] the amount the borough would have to increase the mill rate to merely recoup the loss and the potential impact of that to the state treasury. The calculation to merely recoup the loss is fairly minimal. However, the oil and gas properties of the North Slope Borough are vast; the borough assessed valuation is over \$10 billion. The Senate was concerned that if the additional \$5,000 property tax exemption was granted, the mill rate would be raised to completely erode the aforementioned exemption. Therefore, the property owner would pay the same tax bill and [the borough] would more than recoup the loss from the property tax. Senator Therriault explained:

That slight increase in the millage rate that it would take to erode that and make it net zero to you the residential property taxpayer - when you multiple that by the \$10 billion of assessed valuation, you can see in the last column there [of the spreadsheet] the potential impact. ...I think he [Mr. Dickinson, Department of Revenue] did the calculation [as] if you made the entire \$15,000 of property tax exemption net zero. The impact to the state treasury from the North Slope Borough alone would be over \$11 million.

SENATOR THERRIAULT said that if the calculation was made on the complete \$15,000, then adding \$5,000 would be one-third of that. Under the companion bill, HB 6, with an increase in the millage rate to make the net impact to the residential payer net zero, the impact would potentially be over \$100 million to the state treasury. Senator Therriault pointed out that places such as Fairbanks, Kenai, and Valdez have a mix of residential property and small business owners, which help keep the millage rate in check. Such a dynamic doesn't really exist in the North Slope Borough because so much of their property tax base consists of oil and gas properties. Therefore, there isn't pressure from the local community to keep the millage rate in check.

Number 0583

REPRESENTATIVE GUESS inquired as to the difference between the fiscal note for the new valuation versus the fiscal note for the alternative method.

SENATOR THERRIAULT said it was difficult to decide what to put on the fiscal note because the decision isn't controlled by the legislature [but rather by the local government].

REPRESENTATIVE GUESS requested that the Department of Revenue explain the model presented via the department's spreadsheet entitled, "Effect on Oil Gas Property Tax (AS 43.56) Revenues from Using Higher Mill Rates to Recoup the Effect of Certain Property Tax Exemptions."

Number 0741

DAN DICKINSON, Director, Tax Division, Department of Revenue, testified via teleconference. He related his understanding that the committee wanted him to focus on the different numbers in the last column of the spreadsheet. He explained that if the alternative method, excluding the North Slope Borough, was used with the current version of SB 4, then the \$1.4 million would be used in the fiscal note. However, if the language was changed such that the North Slope Borough could take advantage of this, then the fiscal note would increase to \$12.7 million. Mr. Dickinson directed attention to the third block of text down on the spreadsheet and pointed out that it's based on an additional \$5,000 exemption, which has been recouped against the rest of the [value] of the home, \$85,000. He noted that he used the assumption of \$100,000 value for the home. Therefore, in that sense it already includes the \$10,000 being exempt. If the \$100,000 for the average home is wrong, then the correct average home [valuation] will drive the figures. For example, if the average home is worth less, then the fiscal note impacts will be driven up because the mill rate will have to be increased more to offset the \$5,000 against the smaller base. Mr. Dickinson recalled Senator Therriault's earlier point that the actual base of residences in the North Slope Borough is fairly small.

MR. DICKINSON turned to column B of the spreadsheet and pointed out that the effect of the current \$10,000 exemption only amounts to \$2.3 million, which suggests that there are only about 237 homes that are able to take advantage of the full amount of the credit.

Number 0976

REPRESENTATIVE GUESS requested that Mr. Dickinson walk her through the entire spreadsheet and the assumptions used for the current fiscal note and the alternative, but only relating to SB 4.

MR. DICKINSON began with column A, which illustrates that the total assessed value in the four boroughs taking advantage of the \$10,000 exemption. The numbers illustrate that the North Slope is three times the size of the Fairbanks or Kenai Peninsula, and one-tenth of the size of Valdez. In response to Representative Guess, Mr. Dickinson confirmed that it is all property, but he wasn't sure if the personal property was included in those figures. However, the numbers include residential, commercial, and oil and gas property. Column B specifies the value of the \$10,000 exemption that those municipalities/boroughs are currently taking, which is the effect on their tax base. Therefore, the current tax base is the difference between [column A and column B]. Mr. Dickinson related his belief that the total assessed value includes the senior citizens' and the disabled veterans' exemption.

MR. DICKINSON continued with column D, which expresses the mill rate as a percentage. Column E merely multiplies the current tax base by the mill rate which results in the amount of revenue a particular municipality raises from their property taxes. Column F, which is the first place where there is a difference between SB 4 and HB 6, determines how much the exemption would be if it were \$15,000 instead of \$10,000. Although it's not going to be a precise comparison, as an order of magnitude it's a reasonable way to determine the increase in the exemption that would occur if the exemption was raised to \$15,000 under SB 4 or \$40,000 under HB 6. Column G simply takes the new exemption and subtracts it from the total assessed value listed in column A and the result is the new tax base given the new exemption rate. The new tax base is then divided by the amount of revenue that would be raised under the current tax base in order derive a mill rate [as expressed in column H]. He pointed out that the mill rate increases in all cases because when there is a smaller base, a slightly higher percentage rate must be charged in order to result in the same [revenue]. Column I subtracts the old mill rate from the new rate in order to determine the incremental rate, that is how much additional millage will be charged. Column J specifies the tax base, which is from AS 43.56 properties. The AS 43.56 properties base in Fairbanks, Kenai, and Valdez is significantly less than the total assessed value whereas it doesn't change much for the North Slope. The new incremental rate is then multiplied by the tax base in order to determine the effect on the AS 43.56 property base from the higher mill rate. Mr. Dickinson posed a situation in which the state tax is at 20 mills but allows a credit for any local property taxes. In such a situation, if local property taxes

increase, the state's revenue from this source decreases dollar for dollar. For SB 4, in summary, if all four boroughs are included, [the effect on AS 43.56 collections under the new mill rate] would amount to \$238,000. If the \$21,000 effect from the North Slope Borough is subtracted, the result is \$216,000. He noted that these [figures] were rounded to the nearest \$100,000.

Number 1441

REPRESENTATIVE KERTTULA inquired as to why a homeowner property exemption automatically places the impact against the oil and gas property. Why can't that impact be split, she asked.

MR. DICKINSON answered that the statute requires that a locality tax its residential, commercial, and oil and gas properties at the same rate. In further response to Representative Kerttula, Mr. Dickinson said he didn't know precisely what other states do. He said that Alaska is unusual because it has a single mill rate and allows for a credit for the local municipalities. He related his belief that typically one would find states in which the legislature would establish one rate for commercial property and one rate for industrial property, and often the farming property is given a higher exemption/lower rate. "The point there is they are looking at the state as a whole and what you don't have is a town or a municipality that's fortunate enough to have a very large industrial complex in it, asking that complex to bear the entire burden and exempting the homeowners," he explained. However, a state, as Alaska illustrates, can decide that one industry can bear the burden. In response to Co-Chair Meyer, Mr. Dickinson agreed that this has been the situation in Alaska for some time, since the early 1970s before the Trans-Alaska Pipeline System (TAPS) was put in place. In the early 1970s, the local mill rates were 7-8 mills and thus the state was picking up approximately two-thirds of the tax, not the much smaller portion that it is now.

CO-CHAIR MEYER surmised then that a community such as Valdez could exempt all the residents from any taxes and merely tax all the commercial properties.

MR. DICKINSON agreed, and pointed out that roughly two-thirds of Valdez' property value resides in the marine terminal. The maximum rate by a different law is 30 mills. Therefore, if Valdez simply raised the mill rate to 30 mills and exempted all residential property, the budget of the City of Valdez would remain about the same.

Number 1711

MR. DICKINSON continued the review of the spreadsheet and turned to the alternative method, which begins with a column for the current mill rate. The next column, column E, specifies the amount of the proposed exemption. He said that the title for column E, "Amount saved by each homeowner taking exemption," is inaccurate. Column F is the amount being saved by a homeowner taking the additional exemption, assuming that there is no change in the mill rate. The next column specifies that after the \$15,000 exemption is utilized on a \$100,000 home, \$85,000 worth of [value] would be left to tax. Therefore, the question is what mill rate would be necessary so that the homeowner notices no difference between taking the exemption and paying a higher mill rate. Mr. Dickinson said that no municipality can design a system to accomplish the aforementioned with a single mill rate because the higher the value of the home, the easier it will be to make up the \$5,000 exemption. "In other words, if you have a fixed exemption but the tax is calculated as a percentage, you're going to have to make the average homeowner come out ... neutral - you can't do it for every homeowner," he specified. Mr. Dickinson returned to the question of how much money is necessary against the \$85,000 of value left in the home to make up [the difference in the exemption]. The answer is an incremental nine-tenths of a mill, he said. That amount is determined by dividing the amount saved, [the estimated value of the proposed exemption to the homeowner], into the amount that remains taxable. The new incremental mill rate is multiplied by the AS 43.56 tax base. Because the incremental mill rates are higher than the current fiscal note analysis, all of the values increase. Therefore, if the AS 43.56 tax base is large, the amount significantly increases as illustrated by the North Slope Borough's number. All the numbers increase, which is the result of the amount of the incremental mill rate in column I and the amount in the tax base. When including all four boroughs under the alternative method, the effect on AS 43.56 collections would be \$12.7 million whereas without the North Slope Borough it would amount to almost \$1.4 million. He noted that these are maximums. Furthermore, under HB 6 and its \$40,000 exemption there would be other limitations with regard to the North Slope Borough and possibly Valdez.

CO-CHAIR MEYER asked if the \$200,000 fiscal note attached to the current bill would remain accurate.

MR. DICKINSON remarked that "as-if" exercises are difficult to characterize as good or bad.

Number 2050

REPRESENTATIVE KERTTULA inquired as to why the homeowner has to be held harmless.

MR. DICKINSON explained that if the exemption were increased to \$5,000, the homeowner has now had the benefit. The alternative method analysis assumes that the \$5,000 exemption wasn't used to provide a benefit to the homeowner but is going to be used to hold the homeowner harmless and raise additional revenue from the AS 43.56 property. Although the technical term may be "hold harmless," it's actually not allowing the advantage of the \$5,000 exemption to flow to the [homeowner] but rather raising the average tax so that there is no notice that there was an exemption.

SENATOR THERRIAULT posed a situation in which an individual's tax bill is \$100. With an additional exemption, the tax bill decreases to \$80 and the borough raises the mill rate. Therefore, the borough gives the individual \$20 and then takes it back [via the mill rate]. The same is true for every property payer in the borough.

REPRESENTATIVE KERTTULA identified the [dilemma] as how to keep [the borough] from getting the \$20 back from the homeowner.

SENATOR THERRIAULT answered that the borough raises the mill rate that it controls so that by "taking advantage of this thing, you don't see any [lessening] of your property tax." That is, the overall mill rate has been raised such that it's net zero to [the homeowner]. However, in the process of raising the overall millage rate on all properties, including oil and gas properties, a large amount of money has been swept in [to the borough] from the state treasury.

REPRESENTATIVE KERTTULA surmised then that "net zero" to the homeowner means that the homeowner gets nothing for [the exemption].

MR. DICKINSON replied yes. He explained, "The math is designed so that the average homeowner sees no net effect." However, the amount of revenue increases and thus there may be more services, et cetera. Mr. Dickinson reiterated that this is a maximum effect, but noted that [the effect] could be less depending upon the reaction of each community.

Number 2272

REPRESENTATIVE SCALZI turned to column I and pointed out that the highest millage of the four communities is the North Slope Borough with a rate of 0.111 percent. However, the effect to personal property in the North Slope Borough under the \$5,000 exemption wouldn't be as much as the other municipalities. "And having a larger tax base of \$10 billion, it would seem that that number would be the lowest instead of the highest, as far as the increased millage. Because you don't need that much in the North Slope to neutralize the effect as far as the amount of homes that are up there," he said. He inquired as to why the 0.111 percent is the highest.

MR. DICKINSON explained that the analysis is based on one \$100,000 home in the North Slope Borough. Therefore, the size of the base doesn't matter in this analysis for the alternative method. He explained that the 0.111 percent is derived because \$94 on \$85,000 must be recouped. The incremental mill rate to accomplish the aforementioned is driven by the fact that the North Slope Borough's mill rate is the highest of the three.

REPRESENTATIVE SCALZI said that the analysis seems inaccurate if it's based on one individual home rather than the true amount of homes for which this would be applicable.

MR. DICKINSON reiterated that these are "as-if" analyses. Although he said he is very comfortable with the fiscal note analysis, which looks at the total revenue, he acknowledged that looking at this with only one home could be a shortcoming of the [alternative method] analysis.

REPRESENTATIVE SCALZI noted his belief that basing the analysis on one home is inaccurate.

MR. DICKINSON explained that the result is that [the North Slope Borough] would raise \$11 million more in new revenue save the the \$20,000 the borough would keep so that the one homeowner wouldn't feel the effect of the increased exemption. Mr. Dickinson reiterated that the fiscal note method looks at the actual size of the exemption as it's spread across all homes.

REPRESENTATIVE SCALZI posited that if \$20,000 is all that's necessary to raise [the mill rate to zero out the exemption], then the \$11 million isn't necessary.

MR. DICKINSON agreed, and clarified that the \$11 million doesn't suggest that the revenue is being replaced but rather it ensures that the average homeowner doesn't notice the effect of the exemption.

Number 2552

SENATOR THERRIAULT surmised that Representative Scalzi's question assumes that the local government would only raise the millage to recoup the lost revenue suffered by allowing the exemption. He returned to his \$100 tax bill example from which the local government suffers a \$20 loss in revenue due to the exemption. Therefore, the question becomes: how much would the local government have to raise the millage rate across all property classes in order to recoup that lost revenue. Across all [property classes] the individual with the \$100 tax bill would [receive the \$20 exemption] and the local government would take back \$1 from that individual and the other \$19 from all the businesses. Senator Therriault pointed out that local government isn't merely trying to recoup the lost revenue [from this exemption]. The local government is also trying to make it net zero to the property owner and thus the mill rate will be raised high enough that the \$20 exemption the individual receives will be taken back. Furthermore, that same mill rate will be placed on all the businesses too. In Fairbanks and Kenai, there isn't much motivation to do that because [this will impact] many residential property owners and small businesses. However, on the North Slope Borough almost all the property is oil and gas property, which means that every dollar that is collected from those oil and gas properties is a dollar from the state treasury.

Number 2686

REPRESENTATIVE GUESS surmised that the first analysis answers the question of how much the mill rate would need to be increased in order to keep revenues harmless, while the second analysis answers how much the mill rate would need to be increased in order to keep residential property taxpayers harmless.

SENATOR THERRIAULT agreed.

MR. DICKINSON agreed, but specified that the second analysis refers to the average homeowner.

REPRESENTATIVE GUESS pointed out that this [legislation] extends a current program, and inquired as to the reaction of municipalities to this program.

SENATOR THERRIAULT answered that the current millage rates tell the story. Those communities with tremendous oil and gas properties are at the cap and thus divert dollars from the state treasury.

REPRESENTATIVE GUESS noted, "And those who wouldn't want a sales tax."

Number 2761

REPRESENTATIVE GUESS turned to the alternative method analysis and related her understanding that the numbers are based on the entire \$15,000 exemption rather than the difference. Therefore, she questioned why the final analysis doesn't divide the final numbers by three because the actual difference between the \$10,000 and \$15,000 exemption is one-third.

SENATOR THERRIAULT said that he misspoke earlier with regard to the amounts in the final column. The amounts in the final columns are calculated only on the additional \$5,000.

MR. DICKINSON agreed. "Again, the numbers are going to show up both in column E and column G ... it's the total effect from adding the \$5,000 to what is there."

SENATOR THERRIAULT surmised then that amounts wouldn't be divided by three. Using the \$15,000 in the calculations would mean that the property owner would now lose the benefit from the \$10,000 for years and years, which he didn't believe was likely to happen.

REPRESENTATIVE GUESS inquired as to why this isn't an evaluation of the entire \$15,000 [exemption].

SENATOR THERRIAULT said it's not. He explained that the \$85,000 is present because the value of the home that still remains for tax purposes is necessary so that there could be something to apply the millage rate.

REPRESENTATIVE GUESS pointed out that the first evaluation refers to the change in the millage rate while [the second evaluation] refers to the impact to the entire millage rate. Those are two different questions.

MR. DICKINSON highlighted that column I, in both cases, is the incremental mill rate required to solve the question.

REPRESENTATIVE GUESS inquired as to how that can be the case when the current evaluation of a home is \$90,000. She said that she didn't understand how the entire \$15,000 is being evaluated.

MR. DICKINSON pointed out that column D [under the alternative method] already includes the effect of the \$10,000. If \$15,000 were placed in column E [under the alternative method], then the value to the proposed homeowner would be the total exemption, which would be roughly three times the numbers specified. Then the homeowner's taxes would be raised to the point that the new taxes under this analysis would take away the \$10,000 they currently have.

Number 2967

REPRESENTATIVE GUESS announced that she understood now. If there is concern with regard to the oil and gas property taxes, why didn't the Senate see the need to exclude Valdez as well, she asked.

SENATOR THERRIAULT recalled that Valdez is already at the maximum [cap]. He said that he didn't believe Valdez could use the mechanism in the same manner. Furthermore, the oil and gas properties in Valdez are magnitudes less than those in the North Slope Borough.

MR. DICKINSON informed the committee that there is an informal maximum of 20 mills. That maximum is informal because up to 20 mills, the companies aren't really going to ...

TAPE 02-26, SIDE B

MR. DICKINSON pointed out that in law [the maximum] is 30 mills. In the area between 20 mills and 30 mills, things become more complex. He noted that there is some debate in the Department of Revenue and the Department of Law over the [following interpretation]. If the City of Valdez were to go to a mill rate of 21, the credit would eat into the amount the state receives from the pipeline in the unorganized boroughs because most of that property is pipeline property. In other words, a taxpayer who has property inside and outside Valdez could take the credit outside of Valdez against the Valdez area. Although part of that would be offset the way it is now, an organization

that has spill clean up equipment, for example, only in Valdez would feel the pain when Valdez rose above 20 mills. Mr. Dickinson indicated that [Valdez] could [increase its mill rate]. He agreed with Senator Therriault's observation that the mill rate, in general, seems to be directly proportional to the amount of oil and gas in that jurisdiction.

Number 2941

REPRESENTATIVE GUESS continued with the assumption that no one goes over 20 mills and pointed out that the North Slope Borough only has a small ways to go [before reaching 20 mills]. Furthermore, the assumption of 0.111 percent [under the alternative method] would put the North Slope Borough's mill rate to 30.

MR. DICKINSON clarified that the North Slope Borough would increase to about 20 mills [under SB 4]. In the HB 6 analysis Valdez would be at 30 mills. Mr. Dickinson pointed out that there are other factors going on in the North Slope. He related his belief that the bonding and rating agencies are probably a major influence on the mill rate.

REPRESENTATIVE GUESS asked why the Senate didn't send over a more accurate fiscal note if the reason for excluding the North Slope Borough was because of the potential problem. She estimated that the fiscal note should have been about \$1.4 million rather than \$200,000.

SENATOR THERRIAULT said that the fiscal note could have been an [indeterminate] with pages of explanation because of the many dynamics to evaluate.

REPRESENTATIVE GUESS passed out an amendment for the committee to review.

Number 2812

SARA FELIX, Assistant Attorney General, Civil Division (Juneau), Department of Law, informed the committee that she was present in place of Marjorie Vandor.

REPRESENTATIVE GUESS highlighted the question as to whether the exclusion of one specific borough would raise constitutional concerns.

MS. FELIX noted that the bill doesn't specifically exempt a borough, [although that may be the effect]. Ms. Felix reported that it seems that the analysis under an equal protection challenge would be judged under the lowest level of scrutiny. As long as the state has a reasonable basis for having the distinction in the bill, it should survive an equal protection [challenge]. She pointed out that this is an optional exemption. "As long as there's a reasonable state interest underlying this bill and there's no discriminatory intent, ... we think that it would be Okay," she said.

CO-CHAIR MEYER asked if Ms. Felix believes there is discriminatory intent as the bill is currently drafted.

MS. FELIX answered that she had no reason to believe such. She clarified that she's merely stating the standard in the case law she reviewed.

REPRESENTATIVE KERTTULA asked if there has been any situation in which different rates have been used for different properties.

MS. FELIX pointed out that Alaska Statute says that oil and gas property can't be taxed at a higher rate than other property. Within that constraint, Ms. Felix supposed that differential tax rates could be established as long as there was no discrimination against oil and gas property. In further response to Representative Kerttula, Ms. Felix agreed that it's within the legislature's purview to decide to change the statute specifying that oil and gas property can't be taxed at a higher rate than other property.

Number 2645

REPRESENTATIVE GUESS moved that the committee adopt Amendment 1, which reads as follows:

Page 1, line 11 to page 2, line 2,

Delete "exclusion or exemption authorized by this subsection may not exceed the assessed value of \$10,000 for any one residence 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. Otherwise, an"

Page 2, lines 6-7,

Delete ";or (2) the assessed value of \$10,000"

REPRESENTATIVE SCALZI objected.

REPRESENTATIVE GUESS explained the she didn't like, as a policy matter, excluding areas. The current law [for the existing exemption] extends to all boroughs, and therefore she said she believes that an extension of the exemption should be to all boroughs.

REPRESENTATIVE SCALZI announced his agreement, in principle, with the amendment. Furthermore, he noted that he wasn't comfortable with the [fiscal] analysis. However, he deferred to the experts in the taxation department with regard to their comments that [including the North Slope Borough] would potentially create a significant impact to the state treasury. Upon learning that SB 4 has a committee referral to the House Finance Committee, Representative Scalzi announced that he would object to moving the [current version] of the bill.

CO-CHAIR MEYER noted his agreement with Representative Scalzi's comments. He related his belief that "this" won't have an adverse impact on those living in the North Slope Borough, although it could potentially have a large impact on the state treasury.

REPRESENTATIVE KERTTULA questioned why homeowners in one part of the state should be allowed to pay less, held harmless, than other homeowners. She mentioned her concern of a potentially discriminatory effect with this legislation. Therefore, she announced her support of the amendment.

Number 2439

SENATOR THERRIAULT encouraged the committee to not lose sight of the volunteer section, which would accrue to the North Slope Borough. Furthermore, the [volunteers] would keep the current \$10,000 exemption. Senator Therriault predicted that if this amendment is successful, then this legislation would [die].

REPRESENTATIVE GUESS asked if the legislation would survive if Section 1 was deleted.

SENATOR THERRIAULT replied that he didn't know.

REPRESENTATIVE MURKOWSKI agreed with the sponsor that there is great value [with the volunteer section of the legislation].

Although she acknowledged the concern everyone should have with the potential impact to the state treasury, she also agreed with Representative Kerttula. She, too, asked whether the section of the bill that everyone agrees on could move forward [without the other section].

Number 2277

REPRESENTATIVE GUESS withdrew Amendment 1. She, then, moved that the committee adopt conceptual Amendment 2, which reads as follows:

Delete Section 1.

REPRESENTATIVE SCALZI objected.

SENATOR THERRIAULT pointed out that Section 1 is an optional tool for communities. This legislation was [initially developed] from the property tax issue that was on the ballot at the last general election. This legislation attempts to provide local governments with a tool that would save [homeowners] on their property tax by implementing a sales tax. Therefore, he didn't support eliminating that tool on the basis of the stated concern. Senator Therriault noted his opposition to Amendment 2.

A roll call vote was taken. Representatives Murkowski, Guess, and Kerttula voted for the adoption of conceptual Amendment 2. Representatives Scalzi, Morgan, and Meyer voted against the adoption of conceptual Amendment 2. Therefore, Amendment 2 failed by a vote of 3:3.

Number 2152

REPRESENTATIVE GUESS moved that the committee adopt Amendment 1.

REPRESENTATIVE SCALZI objected. Representative Scalzi said that he intended to meet with Steve Van Sant, State Assessor, Department of Community & Economic Development, to review the analysis because he remained uncomfortable with it. He explained that if [he remained uncomfortable] with the analysis after talking with Mr. Van Sant, then he would offer the same amendment to the House Finance Committee.

CO-CHAIR MEYER pointed out that there is also the opportunity to deal with this on the floor.

REPRESENTATIVE KERTTULA interjected that this is where the work should be done on this legislation. She reiterated her belief that it's not fundamentally correct to discriminate against residents of the state.

REPRESENTATIVE SCALZI agreed that the work should be done in this committee. "My problem is that in erring, I would rather err conservatively on not reducing the state coffers if the analysis is correct," he said. He said he didn't want to slow the bill, and there is the opportunity to address this in the House Finance Committee and on the House floor if [the analysis is incorrect].

The committee took a brief at-ease from 9:45 a.m. to 9:47 a.m.

Number 1998

REPRESENTATIVE GUESS withdrew Amendment 1. She moved to rescind the committee's action in failing to adopt conceptual Amendment [2]. There being no objection, the committee's action was rescinded.

REPRESENTATIVE GUESS moved that the committee adopt conceptual Amendment [2], which reads as follows:

Delete Section 1.

There being no objection, conceptual Amendment [2] was adopted.

REPRESENTATIVE GUESS suggested that the committee zero out the fiscal note because of the minimal fiscal impact and because it could help the legislation bypass the House Finance Committee.

SENATOR THERRIAULT said that there is still going to be a fiscal note of some magnitude because of the volunteer exemption.

CO-CHAIR MEYER agreed that the legislation should go to the House Finance Committee.

Number 1870

REPRESENTATIVE MURKOWSKI moved to report HCS CSSB 4, Version 22-LS0190\E, Cook, 5/7/02, as amended out of committee with individual recommendations and the accompanying fiscal note. There being no objection, HCS CSSB 4(CRA) was reported from the House Community and Regional Affairs Standing Committee.

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." [HCS CSSB 181(CRA), Version 22-LS0488\V, Cook, 5/6/02, failed to move from the House Community and Regional Affairs Standing Committee on May 7, 2002.]

Number 1784

REPRESENTATIVE SCALZI moved that the committee take up Version 22-LS0488\V, Cook, 5/6/02. There being no objection, Version V was before the committee.

Number 1762

BILL LAWRENCE, Staff to Representative Morgan, House Community and Regional Affairs Standing Committee, Alaska State Legislature, explained that before the committee is a title change and a draft HCS [Version 22-LS0488\H, Cook, 5/9/02]. [Version H] removes everything but the teacher loan program and thus a title change will be required. He explained that Section 1 [of Version V] isn't included in Version H. Furthermore, Version H includes an amendment requested by the Alaska Housing Finance Corporation (AHFC); this amendment ensures that the teacher housing loans receive the same interest rates as all other small community housing loans in the program. That language was inadvertently left out. Mr. Lawrence noted that the cap is also taken out of Version H.

REPRESENTATIVE MURKOWSKI directed attention to page 3 of [Version H] and pointed out that the definition of teacher housing has been changed such that it refers to a multi-family residence. She inquired as to the definition of multi-family residence.

MR. LAWRENCE related his belief that the definition of housing refers to single family homes and duplexes.

Number 1612

JOHN BITNEY, Legislative Liaison, Alaska Housing Finance Corporation, echoed earlier testimony that Section 1 [of Version V] is not included in [Version H] and thus there is no longer a threshold level. He explained that initially the bill was a repeal of the entire program. There were concerns of fairness because there are no limitations on the income of the borrower and the size of the loan. There were some loans in excess of \$300,000 and \$400,000. As a compromise, AHFC proposed a threshold for the 1 percent issue to apply. The idea was that any portion of any loan that was above the threshold wouldn't receive the benefit of the 1 percent discount. In the Senate, AHFC suggested that the \$250,000 [threshold] was reasonable with the current housing market.

CO-CHAIR MORGAN announced that the committee would recess to the call of the Chair. The committee was in recess at 9:55 a.m.

[The recording on Tape 02-26 ends and a new tape was inserted upon reconvening.]

TAPE 02-27, SIDE A

CO-CHAIR MORGAN reconvened the House Community and Regional Affairs Standing Committee meeting at 11:35 a.m. Representatives Meyer, Morgan, Halcro, Scalzi, Murkowski, Guess, and Kerttula were present at the call to order. The committee returned to discussion of HCS CSSB 181, Version H.

Number 0050

MR. BITNEY continued discussion of the threshold. He informed the committee that the Senate discussed not supporting legislation that would repeal the program. "It was felt that a threshold level for the 1 percent was a reasonable approach to try to limit how far up the 1 percent discount can go on some larger loans," he said. He announced that the aforementioned

will be an issue for the sponsor. However, [Version H] is a good bill that amends an existing program in order to provide a provision for AHFC to attempt to develop some teacher housing in small communities. He pointed out that the only change in regard to the teacher program can be found on page 2, Section 2 [of Version H], which clarifies that the teacher program receives the 1 percent discount. This clarification was added after discussions with the Attorney General's office. He noted that Section 1 [of Version H] allows current loans in the rural program to have the option to refinance their loans. He explained that because the loan program is a creature of statute, there is no authorization in statute for people to have the option to refinance as afforded to those under bonded programs or conventional programs.

Number 0355

CO-CHAIR MEYER related his understanding that [Version H] basically guts the original intent of the bill, which was to eliminate the entire program. He inquired as to the reason the program was started. He also inquired as to the intent of the program.

MR. BITNEY explained that the program has been around since 1979 or 1980 and began as a teacher housing program. The program was created under the old Department of Community & Regional Affairs. As the program became more of a home loan program, it was intended to offer a 1 percent interest rate discount for rural communities, where the cost of housing is higher, and to ensure that there were home loans in these communities where conventional underwriting standards don't apply for things such as well and septic.

MR. BITNEY recalled the sponsor statement, which discussed the repeal of the program based on the findings of a legislative audit. That audit found that the original intent of the program has changed in that as time has passed, more conventional financing options are available in these communities. Mr. Bitney said that AHFC viewed the audit as good in terms of its basic findings. However, some of the findings didn't seem to take into consideration some factors in cost such as land prices. "But what we pointed out to Senate Finance was is what has also happened at Alaska Housing since this program got started ... is that there's become an expectation, on the part of the state, that Alaska Housing makes money to provide a dividend every year. That's become a very paramount mission statement," he highlighted. In fact, the missions and measures

clearly states that the legislature wants AHFC to provide a dividend. Last year this program made \$20 million in net income. Therefore, this program has become an important piece in AHFC's ability to generate profit. Mr. Bitney explained that the concern with the repeal was that eliminating the 1 percent discount would result in these loans going to other secondary purchasers that are large national organizations with the conventional taxable mortgage rate. Without having this program in place, AHFC will lose significant amounts of business.

CO-CHAIR MEYER referred to a spreadsheet included in the committee packet, which illustrates that for the true rural areas the program seems to work well. However, the larger [rural] communities such as Ketchikan and Kodiak show that the houses are getting into the higher price range, which he surmised was the problem with the Senator [who sponsored the legislation]. He surmised that the Senator feels that the program was never intended for people with an annual income of over \$60,000 and who could qualify for houses over \$200,000.

MR. BITNEY said that the aforementioned is a fair characterization of the sponsor's concern.

Number 0785

CO-CHAIR MEYER offered the possibility of capping the population size rather than capping the dollar amount.

MR. BITNEY reiterated the concern that limiting the areas that can participate the loan would [essentially] downsize the business activity and volume. Mr. Bitney explained that these loans are funded from a revolving fund that has a limited pool of resources to handle the loan demand. If the program is made larger, then the funds won't be available to handle such demand without some infusion of cash. Moreover, limiting the program disqualifies areas, some of which are where the bulk of the business activity occurs. Although that is a policy call, AHFC would lose business volume with the limitations.

CO-CHAIR MEYER pointed out that capping the amount at \$200,000 also seems to limit business. Co-Chair Meyer related his belief that AHFC was Okay with Senator Donley's bill when it arrived in the House.

MR. BITNEY clarified that AHFC supported a threshold of about \$250,000 based on the cost of new construction in Anchorage,

which is about \$220,000. However, AHFC isn't comfortable with the \$200,000 threshold contained in [CSSB 181(FIN)am].

Number 1036

REPRESENTATIVE GUESS inquired as to why the definition of a small community couldn't be determined by whether the community is connected to the rail/road system. She characterized Soldotna and Kenai as some of Alaska's larger communities. Representative Guess requested explanation as to how limiting the program would lose the state money.

MR. BITNEY pointed out that a vast majority of activity with this program is located on the Kenai Peninsula. He explained that the program is applied to qualified loans outside the city limits of Soldotna, Kenai, and Homer.

REPRESENTATIVE GUESS surmised, "If we played with the population another way that would lose the state money, but by limiting the amount of money it wouldn't lose the state money."

MR. BITNEY answered:

If we disqualified those areas ... the threshold that we're suggesting ... is in relationship to how high a loan you can go for the 1 percent discount to apply. So, ... you can still take out, for example in this case, a \$300,000 loan but you would lose the benefit of the 1 percent discount for the portion of the loan above \$250,000. So, you'd have a blended rate loan .... The interest rate to the borrower is still going to beat our competition in that example. So, we feel that because just in the competitive nature between us and the other secondaries, we'll still get the loan because we'll have a better rate. But in this case, the borrower will pay a little bit more than they otherwise would've because they're getting a higher interest rate for that portion above the threshold.

REPRESENTATIVE GUESS inquired as to the limit on the taxable loan program.

MR. BITNEY replied that there are limits on the taxable loan.

Number 1252

REPRESENTATIVE GUESS pointed out that the current bill has a zero fiscal note. She inquired as to how [AHFC's] dividend would be impacted by the \$200,000 cap.

MR. BITNEY said that threshold level would probably generate a little more income because any loan above the threshold will pay a little higher rate. In terms of the bill as a whole, there are some offsetting factors to the potential increase. For example, [the rural HALF (housing assistance loan fund) program] would probably experience an increase in income. The teacher housing program will probably experience a drop in activity with some of that activity increasing as people become more aware of the program.

REPRESENTATIVE GUESS asked whether the current [HALF] program provides a dividend to the state per statute.

MR. BITNEY explained that AHFC's dividend is based on the net income of the corporation, which totaled \$96 million, including the \$7 million windfall from Bank of America in fiscal year 2001. This [HALF] program amount to \$20.3 million. Therefore, [the HALF] program provided \$20.3 million of the dividend.

Number 1386

REPRESENTATIVE HALCRO remarked that he found the sponsor's letter included in the committee packet as completely insulting. He read the following statement from that letter: "Failure to pass SB 181 sends the message that although you are asking Alaskan workers to pay an income tax, you are not willing to cap housing loan subsidies at reasonable levels." Recalling when SB 181 was in committee last Tuesday, Representative Halcro stressed that the committee didn't like the original version of SB 181 because of the intent. "The intent of the bill was specifically to take a slap at rural Alaska," Representative Halcro charged. Aside from that, this program contributes \$20 million to AHFC's annual dividend. This is money the state needs.

REPRESENTATIVE HALCRO stressed that AHFC is a business and questioned why the legislature is dabbling in the day-to-day business of AHFC. Representative Halcro said that he didn't see the need to cap populations. He noted his support of the amended Version [H]. Representative Halcro stated, "I'm not going to entertain any discussion or support any measure that puts back in some of the controls or the caps that was in the original version." He questioned what isn't fair about this

program. Representative Halcro expressed the need to put on the record what the legislation is: an ideological attack on AHFC. He concluded by reiterating his support of Version H.

Number 1557

REPRESENTATIVE SCALZI concurred with Representative Halcro's remarks. He recalled that there was a similar "shot" taken at the Alaska fisheries revolving loan program, which generates between \$12-\$18 million annually. Representative Scalzi related his belief that there are good reasons for the AHFC program and the revolving loan program. Representative Scalzi informed the committee that he received the following information from a realtor in Anchorage. In Anchorage there is the Anchorage Neighborhood Housing Program for income-driven borrowers to borrow the 20 percent necessary for a good down payment. In Anchorage there is also the Officer Next Door Program and the Teacher Next Door Program that forgives 50 percent of the loan of an officer or teacher that stays at the location under which the loan was taken. He clarified that the Municipality of Anchorage offers such generous programs because its population base affords it the ability to do so. However, rural Alaska doesn't have the population base to offer such programs. Representative Scalzi announced his support of [Version H].

Number 1706

CO-CHAIR MEYER related his belief that Senator Donley's intent in introducing SB 181 is due to his belief that the state should review how it spends money before asking for additional money. He pointed out that the spreadsheet specifies that there are nine properties, which can be houses or investment properties, [for which the loan] amounts to over \$350,000. One has to have a fairly good income to afford a house of that size. Co-Chair Meyer recalled that AHFC's testimony has explained that the legislation generates more revenue for the state because those buying houses that [are more than the cap] would have to pay a higher rate on the amount over the specified cap. Co-Chair Meyer related his belief that Senator Donley has good intentions [with SB 181] because it will generate more money for the state, and furthermore the legislation seems to bring the program in line with the original intent of the program. Co-Chair Meyer announced that he liked the teacher housing program and expressed concern that sending the legislation back to the Senate with only the provisions dealing with the teacher housing program could [kill] the bill. Therefore, this good bill should be salvaged such that both bodies accept it.

CO-CHAIR MORGAN agreed that the intent of the bill is good. Essentially, the bill has been redirected in order to accomplish some movement. He pointed out that this isn't a giveaway but rather a loan.

Number 1848

REPRESENTATIVE MURKOWSKI said that she didn't find the cap so offensive, and furthermore she felt that the numbers provide AHFC the justification for setting the cap at \$250,000. In attempting to determine the reason one would have to eliminate the program, Representative Murkowski said that she didn't see that much abuse. Although one might expect the smaller communities where the cost of construction is much higher to fall in the \$300,000 category, that isn't the case. In the smaller communities where the loan is utilized, it is utilized at the lower end. Representative Murkowski related that she didn't have a problem with a cap so long as it was set at a realistic level, which she indicated would be \$250,000. She said that it's important to move out this bill today in order to forward the teacher provisions.

REPRESENTATIVE GUESS inquired as to whether other AHFC programs have caps and if so, what is the cap.

MR. BITNEY answered that the main program is the tax-exempt first-time homebuyer program that has an interest rate equivalent to that for the rural program. However, the with allowing that program to be available in the same locations as the [HALF program] is problematic because the tax-exempt first-time homebuyer program specifies a limit on the income of the borrower and the price of the home. [These limitations] result in two-thirds of the tax-exempt program money going to the Municipality of Anchorage area.

REPRESENTATIVE GUESS commented that perhaps she was remiss in initially attempting to rush this bill through. Furthermore, the teacher part of the bill is very important.

Number 2257

DAN FAUSKE, CEO/Executive Director, Alaska Housing Finance Corporation, informed the committee that the two largest and most successful housing programs in America are controlled by the Internal Revenue Service (IRS) not the U.S. Department of Housing and Development (HUD). Furthermore, the caps and

limitations are placed on programs by the federal government. He explained that the tax-exempt first-time homebuyer program is a cap that was initiated and is administered by the federal government. If this is a fairness issue, then everyone needs to work together to get things accomplished through Alaska's congressional legislators. He noted that although "we" were successful in having the caps raised, the caps were only raised in Anchorage not rural Alaska. The vast majority of tax-exempt first-time homebuyer loans are in urban Alaska and the rest of the state is basically prohibited due to the [federal] caps and limitations.

MR. FAUSKE turned to the rural areas and commented that a \$400,000 home [loan in rural Alaska] is an exception. When looking at the list of loans, houses at the \$400,000 level are in the minority. Moreover, one must keep in mind the amount of work a [\$400,000] house generates in the community and the amount of money spent on that house that returns to the state based on AHFC's dividends. Therefore, Mr. Fauske said he didn't view [the \$400,000 house] as bad business but rather someone in a rural area taking advantage of an available program. He commented that an admirable compromise has been worked out on the bill.

MR. FAUSKE pointed out that AHFC is held to energy standards by state law. He expressed his belief that it isn't appropriate for federal institutions to not adhere to anything but the local building code, especially in this time of heightened awareness with regard to energy consumption. Mr. Fauske noted his support of the program, although he acknowledged the need to reach a compromise. He said he felt that a compromise had been reached with the \$250,000 cap. In closing, Mr. Fauske recommended that the cap be set as high as possible, within reason, in order to generate business.

Number 2468

CO-CHAIR MEYER moved that the committee adopt conceptual Amendment 1, which reads as follows:

Page 1, line 1, following "Act":

Insert "**relating to and increasing the interest rate on that portion of a loan for a single family house or owner-occupied duplex in a small community that exceeds \$250,000;**"

Page 2, line 16, following "AS 18.56.420.":

Insert "However, under this subsection, the interest rate on that portion of a loan for small community housing for a single-family house or owner-occupied duplex that exceeds \$250,000 is the same as the interest rate determined under AS 18.56.098(f)(1) - (14)."

REPRESENTATIVE SCALZI objected.

CO-CHAIR MORGAN mentioned that the amendment may require a title change.

CO-CHAIR MEYER explained that he is offering the amendment because he believes that everyone supports the teacher housing provision. However, he said he believes that returning to the Senate without some cap would result in losing the teacher housing provision. Furthermore, AHFC has testified that raising the cap to \$250,000 would generate more revenue.

REPRESENTATIVE KERTTULA related that she didn't believe the committee had made a mistake when the section being reinserted was originally deleted. For those loans over \$250,000, there would be a blended rate. She pointed out that the movement seems to be in the area of \$250,000 loans. Furthermore, the cost for construction in rural Alaska is going to continue to rise. Representative Kerttula posed a situation in which the [cap] is set at \$250,000. In such a situation, would there be the risk of some of those loans going to other programs, she asked.

MR. BITNEY said that AHFC would remain below the rate of the national organizations for quite some time. Therefore, AHFC assumed that it would maintain almost all of the loans AHFC currently receives. However, some loans may choose to go with a national organization in order to avoid dealing with energy efficiency restrictions required with AHFC. Although it's hard to measure the risk, Mr. Bitney acknowledged that some loans will be lost due to the AHFC requirements.

Number 2659

REPRESENTATIVE SCALZI specified that just less than 4 percent of the homes on the Kenai Peninsula are above the \$250,000 mark. Since 4 percent doesn't amount to much, Representative Scalzi announced that he didn't support the amendment. Furthermore, Representative Scalzi informed the committee that the Kodiak

annexation failed largely because those folks [outside of Kodiak] would be exempted from this program.

REPRESENTATIVE HALCRO noted his agreement with Representative Scalzi. Representative Halcro inquired as to how the \$250,000 cap would affect AHFC's income.

MR. FAUSKE answered that he felt that AHFC would continue to capture the majority of the loans based on a 1 percent reduction with a cap of \$250,000. Furthermore, those people with persons buying a \$300,000-\$325,000 home would still find it advantageous to use an AHFC loan. Therefore, the assumption was that [the cap] would enhance the program rather than harm it.

REPRESENTATIVE HALCRO asked if there have been any complaints with this loan program.

MR. FAUSKE replied no. However, in Kenai AHFC addressed the Kenai City Council because people were moving outside the city limits not only because of the loan program but also because people were getting "more bang for their buck." The tax-exempt first-time homebuyer program is actually [utilized more] than the rural home program in certain areas. The discussion resulted in the city council passing a resolution stating that it wanted to see a [rural home program] as a statewide program. Mr. Fauske related that the industry has not had concerns. Although the Boundary Commission had concerns, AHFC dealt with those issues. In response to Representative Halcro, Mr. Fauske said that those with current loans would not be impacted by a cap.

TAPE 02-27, SIDE B

REPRESENTATIVE GUESS inquired as to whether a \$250,000 threshold would work for awhile or will this have to be revisited soon.

MR. FAUSKE answered that he assumed that this threshold will be revisited. He predicted that a \$250,000 threshold should be appropriate for the next couple of years unless there is a significant change in the economy.

MR. BITNEY pointed out that if this legislation passed, there would be a threshold in statute as well as the population caps, which is the issue that is usually revisited frequently. For example, it will probably be another year or two before Bethel reaches the 6,500 population threshold for areas off the road

system. Therefore, he predicted that there will be legislation dealing with the population threshold before the loan threshold.

Number 2849

CO-CHAIR MEYER said that Representative Guess has a good point and had he thought of it he would have tied the cap to the Consumer Price Index (CPI). However, it's probably better to revisit this every couple of years.

REPRESENTATIVE GUESS pointed out that there is only one CPI for the state, the one used for Anchorage.

Number 2795

REPRESENTATIVE HALCRO suggested that perhaps the cap should be bumped up so that this issue won't have to be revisited for another 5-6 years. He noted his support of changing the cap from \$250,000 to \$300,000.

CO-CHAIR MORGAN, determining that there was no further discussion on the amendment, asked if Representative Scalzi maintained his objection.

REPRESENTATIVE SCALZI replied yes.

A roll call vote was taken. Representatives Murkowski, Guess, and Meyer voted for the adoption of conceptual Amendment 1. Representatives Kerttula, Halcro, Scalzi, and Morgan voted against the adoption of conceptual Amendment 1. Therefore, conceptual Amendment 1 failed by a vote of 3:4.

Number 2722

REPRESENTATIVE MURKOWSKI moved that the committee adopt conceptual Amendment 2, which is the same as Amendment 1 except that the cap is increased to \$300,000.

REPRESENTATIVE SCALZI objected.

CO-CHAIR MEYER noted his support of conceptual Amendment 2, but reiterated concern that the bill will [die] in the Senate without a cap.

REPRESENTATIVE HALCRO said that it's up to the Senate to decide whether or not to act on something that has merit. He expressed an aversion to include something so that the teacher portion of

the bill lives. He noted his support of the \$300,000 cap, although he stressed that it establishes a bad precedent when the legislature tries to micromanage agencies that are responsible for providing a dividend.

REPRESENTATIVE GUESS commented that care should be taken when one body tries to do things solely to please the other body. Differences should be dealt with in conference committees.

MR. BITNEY, in response to Co-Chair Meyer, said that whether the cap is \$250,000 or \$300,000, it enhances the program.

REPRESENTATIVE MURKOWSKI agreed with Representative Guess' comments. She explained that she moved conceptual Amendment 2 because of AHFC's testimony that it would enhance the program.

A roll call vote was taken. Representatives Halcro, Murkowski, Guess, and Meyer voted for the adoption of conceptual Amendment 2. Representatives Scalzi, Kerttula, and Morgan voted against the adoption of conceptual Amendment 2. Therefore, conceptual Amendment 2 passed by a vote of 4:3.

Number 2450

REPRESENTATIVE GUESS moved that the committee adopt the following amendment:

Page 2, line 30, after "teacher"  
Insert "and educational professional"

REPRESENTATIVE GUESS recalled testimony during the House Special Committee on Education interim hearings that specified that there is a shortage of counselors and other professionals. In response to Representative Murkowski, Representative Guess said she didn't believe that every other reference to teacher should include "and educational professional" because the other references are related to teacher housing.

Number 2346

REPRESENTATIVE SCALZI inquired as to what this would really accomplish for the teachers.

REPRESENTATIVE GUESS explained that this language would allow an entity to obtain a break on providing teacher housing, which is a huge problem in rural Alaska. She pointed out that in [rural Alaska] there isn't housing to purchase.

REPRESENTATIVE SCALZI related his understanding that any residential property would qualify. He pointed out that only duplexes and residential property qualify. Therefore, he questioned why something specific for teachers is necessary.

REPRESENTATIVE GUESS related her understanding that it was for multi-family residences.

MR. BITNEY explained that the residential portion of the program is limited to single family homes and duplexes. Therefore, the only difference for the teacher portion is that multi-family homes would qualify for a teacher housing project. In further response to Representative Scalzi, Mr. Bitney pointed out that the definition of "teacher housing" specifies that teacher housing is a multi-family residence that may be nonowner occupied or owner occupied. The [teacher housing provision] is the only provision that can go beyond a duplex.

REPRESENTATIVE SCALZI posed a situation in which the teacher moves out of the residence and the remaining residents are not [teachers]. In such a situation, would the loan remain in tact or would it lose the 1 percent reduction rate.

MR. BITNEY answered that under the current language, the loan would stay in tact, but the 1 percent discount would be lost from that point forward.

Number 2184

REPRESENTATIVE MURKOWSKI related her understanding that teacher housing under [Version H] would mean that only a multi-family residence could qualify [for this teacher housing loan].

MR. BITNEY explained that a teacher buying a single-family house would do so under the regular portion of the program, and therefore there wouldn't be any limitation on the resale with the interest rate. The benefit of the teacher [housing program] is if it's for a tri-plex or above, but each unit has to be occupied by a certified teacher. He pointed out that language to that effect is on page 2, lines 28-31.

REPRESENTATIVE MURKOWSKI posed a situation in which a six-plex owner who isn't a teacher wanted to live in one of the units [of a building that had a teacher housing loan].

MR. BITNEY answered that the owner couldn't live in one of the units [if the six-plex was under a teacher housing loan]. Therefore, if this owner was to move in the entire complex would lose eligibility for the teacher housing loan.

The committee took an at-ease from 12:40 p.m. to 12:42 p.m.

Number 2026

REPRESENTATIVE GUESS moved to adopt HCS CSSB 181, Version 22-LS0488\H, Cook, 5/9/02, as the working document. There being no objection, Version H was before the committee.

Number 1991

REPRESENTATIVE MURKOWSKI moved that the committee adopt new Amendment 1, which reads as follows:

Page 1, line 1, following "Act":

Insert "**relating to and increasing the interest rate on that portion of a loan for a single family house or owner-occupied duplex in a small community that exceeds \$300,000;**"

Page 2, line 16, following "AS 18.56.420.":

Insert "However, under this subsection, the interest rate on that portion of a loan for small community housing for a single-family house or owner-occupied duplex that exceeds \$300,000 is the same as the interest rate determined under AS 18.56.098(f)(1) - (14)."

[This was formerly conceptual Amendment 2 moved and adopted by Representative Murkowski before the HCS was adopted.]

A roll call vote was taken. Representatives Murkowski, Guess, Halcro, and Meyer voted for the adoption of new Amendment 1. Representatives Scalzi, Kerttula, and Morgan voted against the adoption of new Amendment 1. Therefore, new Amendment passed by a vote of 4:3.

Number 1894

REPRESENTATIVE GUESS moved that the committee adopt the following amendment, Amendment 2:

Page 2, line 30, after "teacher"

Insert "or educational professional"

There being no objection, Amendment 2 was adopted.

Number 1730

REPRESENTATIVE MURKOWSKI moved to report HCS CSSB 181, Version 22-LS0488\H, Cook, 5/9/02, as amended out of committee with individual recommendations and the accompanying fiscal note.

REPRESENTATIVE HALCRO objected for the purposes of discussion. Representative Halcro expressed concern with regard to the immediate effective date and suggested giving AHFC time to change. He proposed an effective date of January 1, 2003.

MR. BITNEY related his experience that when there is an effective date on a change to a program, there is generally a run on business when the word gets out about the effective date. Therefore, extending the effective date provides more time for people to be informed about the effective date and thus there might be more of a push for some of the upper-end loans that might be impacted by the threshold.

MR. BITNEY, in response to Co-Chair Meyer, agreed that upon adjournment there would be approximately a month of time [before the bill is signed].

REPRESENTATIVE MURKOWSKI pointed out that eliminating the reference to the effective date would mean that the legislation would become effective 90 days after the governor signs it. Perhaps, this would be the best solution.

Number 1612

REPRESENTATIVE MURKOWSKI withdrew her motion to move Version H as amended from committee. There being no objection, it was so ordered.

REPRESENTATIVE MURKOWSKI moved that the committee adopt Amendment 3, which reads as follows:

Page 3, line 22,  
Delete Section 4

There being no objection, Amendment 3 was adopted.

Number 1580

REPRESENTATIVE MURKOWSKI moved to report HCS CSSB 181, Version 22-LS0488\H, Cook, 5/9/02, as amended out of committee with individual recommendations and the accompanying fiscal note.

REPRESENTATIVE SCALZI objected.

A roll call vote was taken. Representatives Murkowski, Guess, Kerttula, Halcro, Meyer, and Morgan voted to report HCS CSSB 181 as amended from committee. Representative Scalzi voted against to report HCS CSSB 181 as amended from committee. Therefore, HCS CSSB 181(CRA) was reported out of the House Community and Regional Affairs Standing Committee by a vote of 6:1.

The committee took a brief at-ease.

#### **ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 12:55 p.m.